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FUTURE OF INTERCITY PASSENGER RAIL SERVICE AND AMTRAK

HEARING

BEFORE THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION UNITED STATES SENATE

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

APRIL 29, 2003

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SENATE COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

ONE HUNDRED EIGHTH CONGRESS

FIRST SESSION

CONTENTS

	Page
Hearing held on April 29, 2003	1
Statement of Senator Burns	11
Prepared statement	11
Statement of Senator Hollings	3
Prepared statement	3
Article, dated April 21, 2003, from *The Washington Post,* entitled "Amtrak's Top Gunn; The No-Nonsense CEO Has Revived a Railroad and Won Respect From Politicians and Employees"	5
Article, dated April 26, 2003, from *The Washington Post,* entitled "Amtrak Chief Unveils Five-Year Plan; $8 Billion Sought to Repair Infrastructure, Trains in Northeast"	9
Statement of Senator Hutchison	10
Statement of Senator Lautenberg	51
Prepared statement	52
Statement of Senator Lott	11
Statement of Senator McCain	1
Statement of Senator Sununu	54

WITNESSES

Dittmar, Hank, Co-Director, Reconnecting America	85
Prepared statement	87
Gunn, David L., President and CEO, Amtrak	38
Prepared statement	42
Jackson, Hon. Michael P., Deputy Secretary, Department of Transportation	11
Prepared statement	16
King, Hon. David D., Deputy Secretary, North Carolina Department of Transportation	67
Prepared statement	70
Landes, Alan, Senior Vice President, Herzog Transit Services, Inc.	93
Prepared statement	95
Preliminary List of Contacts for Discussion of Amtrak Privatization, Updated May 16, 2003	104
Mead, Hon. Kenneth M., Inspector General, Department of Transportation	28
Prepared statement	31
Pracht, Michael P., Chairman, Passenger Transportation Committee, Railway Supply Institute, Inc.	99
Prepared statement	100
Winner, John H., President, Harral Winner Thompson Sharp Lawrence, Inc.	78
Prepared statement	80

APPENDIX

Capon, Ross B., Executive Director, National Association of Railroad Passengers, prepared statement	111
Kerry, Hon. John F., U.S. Senator from Massachusetts, prepared statement	109
Response to written questions submitted to Hank Dittmar by:	
Hon. Ernest F. Hollings	144
Hon. Frank R. Lautenberg	146
Hon. John McCain	141
Response to written questions submitted to David L. Gunn by:	
Hon. Ernest F. Hollings	129
Hon. John McCain	121
Hon. Ted Stevens	128

	Page
Response to written questions submitted by Hon. Ernest F. Hollings to:	
Hon. David D. King	131
Michael P. Pracht	148
Response to written questions submitted to Alan Landes by:	
Hon. John McCain	146
Response to written questions submitted to Hon. Kenneth M. Mead by:	
Hon. Ernest F. Hollings	119
Hon. Frank R. Lautenberg	121
Response to written questions submitted to John H. Winner by:	
Hon. Ernest F. Hollings	137
Hon. John McCain	133
Stoetzel, Jim, Vice President, Contract Operations—Rail, Connex North America, Inc., letter dated May 5, 2003 to Sharon Dashtaki, Missouri DOT	110

FUTURE OF INTERCITY PASSENGER RAIL SERVICE AND AMTRAK

TUESDAY, APRIL 29, 2003

U.S. SENATE,
COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION,
Washington, DC.

The Committee met, pursuant to notice, at 9:30 a.m. in room SR–253, Russell Senate Office Building, Hon. John McCain, Chairman of the Committee, presiding.

OPENING STATEMENT OF HON. JOHN McCAIN, U.S. SENATOR FROM ARIZONA

The CHAIRMAN. Good morning. The Committee meets today to hear testimony on the future of intercity passenger rail service and Amtrak.

During my years in Congress, I have participated in more hearings and debates about Amtrak than I can count, but hope springs eternal that today's hearing will mark the beginning of a bipartisan effort to develop a consensus on how to reform Amtrak and transition to a passenger rail program that meets a market demand and provides more value for the taxpayers.

I commend David Gunn for his accomplishments over the past year as Amtrak's President. Thanks to his leadership, Amtrak has a credible business plan to carry it through this fiscal year with a realistic revenue and capital forecast. Mr. Gunn has been very candid about the mistakes that were made by Amtrak with the Acela project, the mail and express initiatives, and the sale and mortgaging of assets to generate cash. His candor and willingness to deal with problems head-on has earned him the respect of many traditional Amtrak skeptics.

During a meeting I had with Mr. Gunn last January, he indicated that Amtrak would need about $2 billion annually in subsidies to bring equipment in the Northeast Corridor up to a state of good repair. I asked Mr. Gunn for a 5-year business plan in order for us to be able to assess what 5 years of additional subsidies would achieve and the outlook for Amtrak beyond that period. Mr. Gunn submitted that plan last Friday afternoon, and we will discuss it this morning.

Amtrak is seeking a total of $8.2 billion in Federal funding over the next 5 years to operate the current network and restore equipment in the Northeast Corridor to a state of good repair. I cannot support an approach which further postpones reform and calls for operating the same trains over the same routes with millions more in operating losses and a continuing need for large infusions of cap-

ital from the taxpayers. But I do hope we can work with Mr. Gunn, the Administration and my colleagues to develop and enact a sound reform measure that can address some of the needs Mr. Gunn has identified while also implementing needed structural reforms.

Let me cite my favorite train, the Sunset Limited, as an example of where and why change is needed. In 2001, the Sunset Limited, which operates between Los Angeles and Orlando, lost $347 per passenger, excluding depreciation. The entire year, the route carried 108,000 passengers, or less than 300 passengers per day. Greyhound Bus Lines, by comparison, carried an estimated 1.5 million passengers between points served by the Sunset Limited, and the airlines carried 4.5 million passengers between those city pairs. And perhaps what I find even more startling is that four times as many people flew just between Los Angeles and Tucson as rode between all points served by the Sunset Limited. Where is the value in continuing to fund this train?

Some like to argue that Amtrak is the sole means of public transportation for small-town America, but except in a handful of instances, this is not the case. A 1999 analysis for the Transportation Research Board found that of the 4,000 communities nationwide with a population of between 2,500 and 50,000, Amtrak was the sole means of public transportation for 1.6 percent of those communities, 65 communities. Many more small communities rely on bus and air service than on Amtrak.

Trains that neither meet a market demand nor provide a needed public transportation do not warrant millions of dollars in annual Federal subsidies. Furthermore, given budget constraints, is it sound policy to continue to fund uneconomic train routes that siphon off funds that might otherwise be used to develop economically viable service along short-distance corridors?

Amtrak began operations in 1971 as a for-profit corporation and was to be free of all Federal support by 1973. We've been over and over this history, but it always bears remembering as we look at these multi-billion dollar requests for subsidies. Throughout its history, including between 1997 and 2001, Amtrak led Congress to believe that profitability, or at least operational self-sufficiency, was achievable. That was in testimony before this committee. If we're now to conclude that Amtrak will always run operating and capital deficits, our duty to the taxpayers is to ensure that service is operated as efficiently as possible to minimize subsidies. There should be a fair and open competition for Amtrak from private-sector companies. I've asked our witnesses to discuss in their testimony what must be done to foster such competition.

Further, there needs to be equitable cost-sharing between the Federal Government, the states, commuter authorities on the Northeast Corridor, and others. Today's twisted policy has states contributing financial support for some of the most efficient trains on Amtrak's network, while states pay nothing for long-distance trains that lose $20 million, $30 million, $40 million, or even $50 million per year.

I appreciate the witnesses for appearing today. I hope the testimony will help the Committee develop a reasoned consensus on the future of intercity passenger rail service and the basis for legislative change this year.

Senator Hollings?

STATEMENT OF HON. ERNEST F. HOLLINGS, U.S. SENATOR FROM SOUTH CAROLINA

Senator HOLLINGS. Well, Mr. Chairman, thank you very much for the hearing. And if nothing's said at all, what we need do—let me first include my prepared statement in the record.

The CHAIRMAN. Without objection.

Senator HOLLINGS. I appreciate it.

[The prepared statement of Senator Hollings follows:]

PREPARED STATEMENT OF HON. ERNEST F. HOLLINGS, U.S. SENATOR FROM SOUTH CAROLINA

We are facing an important juncture where we must determine how to preserve passenger rail service in the U.S. and to maintain the solvency of Amtrak. We need long-term planning and support for passenger rail to address future passenger growth needs. We can look to rail to provide transportation alternatives and solutions. As we saw following the events of September 11, 2001, passenger rail serves our national security by providing an alternative to highway and air travel. Furthermore, passenger rail development provides a more fuel-efficient transportation system thereby providing cleaner transportation alternatives and helping to reduce our dependence on foreign oil.

During the past 50 years, strong Federal leadership and funding were essential to the development of the interstate highway system and our Nation's aviation system. It is time for the Congress to take the same strong leadership with passenger rail infrastructure as it did years ago when it provided funding to the interstate highway and aviation transportation systems. In the early 1970s when the private railroads begged the government to relieve them of the unprofitable passenger rail service, the Congress obliged and created Amtrak. Between 1971 and 2001, $25 billion was spent on passenger rail. However during that same time, over $570 billion of Federal funding was invested in highways and aviation. Only 4.2 percent of the $595 billion invested in transportation has gone to passenger rail service.

Furthermore, these funding levels do not include spending during fiscal years 2002 and 2003, when over $48 billion was invested in the aviation industry and over $60 billion was spent on the highways. Nor do these levels include funding for the 50,000 employees who provide security for the aviation industry. The amount of funding that *only* the aviation industry has received during the last two fiscal years is almost double the funding that has been invested in passenger rail over the last 30 years. If passenger rail is to succeed, it must be a real Federal priority. We must recognize that, like the highway system and the aviation system, the passenger rail system cannot operate at a profit. We must invest in the development of its infrastructure using Federal dollars to support both capital and operating needs like we have done in the other modes of transportation.

High speed passenger rail has proven to be effective between Washington, D.C. and Boston where Amtrak's Northeast Corridor relieves the pressures of congestion on highways and at airports, and provides a more balanced system of transportation alternatives. In fact, of the direct travel between New York City and Washington, D.C., more passengers travel on Amtrak trains than take the airport shuttles (53 percent versus 47 percent). We are at a crossroads where we need to determine how we should invest in our passenger rail infrastructure in the Northeast *and* replicate its success throughout the rest of the country.

There are those who argue that we can best achieve success if we restructure our passenger rail system through privatization. Privatization initiatives used in other countries are often touted as holding the secret to Amtrak's future success. However, none of the privatization schemes in other countries exactly fits the American situation. We must carefully examine any privatization proposal to ensure that privatization does not exacerbate Amtrak's delicate financial situation, or worse, do so at an unacceptable cost to safety and service.

Furthermore, we must not be led to believe that the privatization of Amtrak will decrease the Federal cost of passenger rail. Many countries in Europe and in the Pacific Rim have highly successful and effective passenger rail systems. But every first-rate passenger rail system in the world—whether it is public, private or something in between—has been expensive for the country that uses it. Those countries

with first-rate passenger rail systems have them because they have chosen to invest the funds necessary to build them and run them.

For Amtrak, we have neglected to furnish a long term, stable funding source like we did for aviation, highways and transit systems. In fiscal year 2001, intercity passenger rail received less than 1 percent of all transportation spending. Since the last authorization of Amtrak in 1997, *only* $2.8 billion has been appropriated of the $5.2 billion authorized over the last 5 years. Without a major overhaul and Federal commitment, national passenger rail service will be a thing of the past.

That is why I re-introduced The National Defense Rail Act, S. 104. This bipartisan legislation has over 30 cosponsors and is virtually identical to S. 1991 which was reported favorably by this committee last year by a vote of 20 to 3. This legislation provides a blueprint for the future of intercity passenger rail service in the United States. It provides for the development of high-speed rail corridors, which are the building blocks of a national passenger rail system, and it fully funds Amtrak operations. We have a world-class highway system, a world-class aviation system, and a world-class freight rail system. It is time that we have a world-class passenger rail system.

Senator HOLLINGS. If nothing's said at all, let's put in two articles, if you please, Mr. Chairman, April the 21st and one April the 26th in the Washington Post, about the outstanding job that David Gunn has done. We're very, very lucky, because I've been around here now going on 37 years, and this is the first individual I've really run into that knows railroads, is working around the clock, has cut the costs and cut some of those routes that you pointed out about that do not pay for themselves.

And yet in lauding Mr. Gunn, we've got to give him some support. We've asked him, in a bill that we passed out of the Committee—we had a bipartisan series of hearings, a bipartisan bill—20 to 3, we reported it out. We never could get it up for consideration. There were always holds on the floor. But within that measure, we asked for a 5-year plan, and now we have it, from the best of the best, Mr. David Gunn. I hope we can move forward and not just turn—and continue, I should say, Amtrak as a debating society.

When you talk of—you've got somebody on your staff, Johnny Inkslinger, and he sits down there and maps out miles and how many passengers and all that nonsense. And, the truth of the matter, here's a committee, that has funded Amtrak for over 30 years at $500 million a year, not billions—$500 million a year for 30 years, and this same committee just 3 weeks ago voted $40 billion—$40 billion—since 9/11, for the airlines. We could give them another $3.5 billion, $1 billion, for not knowing how to operate an airline. They're just a bunch of bums. They're all going broke.

I mean, if you want to get down here and start adding up miles and what's profitable in cost benefit and everything else, we can turn it into a debating society, and that's, unfortunately, what we've done. But then we're going to lose Mr. Gunn, and then we're not going to have a passenger rail system in this country.

And that's the fundamental question for the Committee to decide. If they want a passenger rail system, one, privatization is totally nonsense; it's out of the question. We gave it to the private railroads after World War II, and they begged us in the early seventies, said, "Yes, you take it, take the equipment, take the routes. We can't make money on it." We looked the world around, and we haven't found any passenger rail system that's ever made money. That's not to say we just throw money away, but the truth of the matter is a lot of the deficiencies and all that go such to the ex-

treme that you have to mortgage the railroad station and those kind of things, and cut out the lights, we're the problem up here.

We've got to get a comprehensive study/conservative plan for passenger rail. I favor it. It's not going to come through my backyard, but we need it in this country. I'll go along with the distinguished Chairman on trying to cut back on waste, where there are only three or four passengers or whatever it is, just to satisfy some political interest and that kind of thing. But, otherwise, let's don't come with all the little gimmicks because we can't get past Mitch Daniel, Mr. Jackson.

I've worked with Secretary Mineta and with you and with the Administration, and, like I say, it has been bipartisan. And once we had a bill, I said, "Mr. Gunn, you take it. You know railroads. Tell us what's wrong with the bill and what should not be in it or what should be added," and we did it. And we've got 32 cosponsors now. We're ready to go with a measure. But if we want to turn it into a debating society and picky, picky, picky—I'm quoting the President now about little picky things—then we could picky, picky, picky this one, too, I mean, and then not have a passenger rail service.

So I appreciate very much the hearing and the witnesses here today, and I thank you, Mr. Chairman.

The Washington Post, April 21, 2003

AMTRAK'S TOP GUNN; THE NO-NONSENSE CEO HAS REVIVED A RAILROAD AND WON RESPECT FROM POLITICIANS AND EMPLOYEES

By Don Phillips

The conventional wisdom on David L. Gunn used to be that he was skilled at fixing broken rail systems but lousy as a politician, a man who could wipe the graffiti off New York's subways but in time would always shoot himself in the foot.

But now, as he approaches the end of his first full year as president and chief executive of Amtrak, Gunn's speed and decisiveness in getting the ailing national passenger railroad back on track have at least slowed the Bush Administration's determination to restructure it into far smaller form. He has won over some longtime Amtrak foes in Congress and especially among beaten-down Amtrak employees, some of whom have printed up "Proud to Be Working Under the Gunn" T-shirts.

Gunn's warning last summer that Amtrak would shut down, and take some commuter services with it, unless it got more money left hard feelings in the Administration and some commuter agencies. But he has also given Amtrak's many critics what they wanted. The blunt talk, independence and quick action that got him pushed out of at least three other jobs earlier in his career may, at least so far, be the biggest things working for him at Amtrak.

And if people do not like what he says or does this time, he has said, he can "just go back to Nova Scotia" and re-retire.

When Gunn has had it with the battling and begging necessary to keep Amtrak alive, he wanders down from Amtrak headquarters into the netherworld of Union Station. When he did it for the first time, employees in the crew rooms and the tunnels were stunned—some said they had never even seen the previous president, George D. Warrington, let alone shot the breeze with him.

"Sometimes," Gunn says, "I just need to go down and see a train."

Or, put another way, sometimes Gunn just is not terribly comfortable acting like a boss even though he has been one so many times.

Gunn, 66, was born in Boston, the grandson of a ship captain, but his heart is in Nova Scotia. His family moved to Cape Breton when Gunn was a small child, and he keeps a home there to which he returns whenever possible. His Nova Scotia roots instilled an ethic that says hard labor is one of life's callings.

"Physical work is an honorable thing to do," he said. "There's no honest job that's beneath you. If you want me to clean toilets, I'll clean toilets."

In Nova Scotia, "stuffed shirts and big shots, they're not respected," he said. "People are judged on their willingness to break a sweat."

Gunn has had a few opportunities to break a sweat at Amtrak.

At least twice, he has been aboard trains that broke down and taken it upon himself to move passengers' luggage to other trains. He said his employees were perfectly capable of making the bigger decisions, and he could help best by doing some heavy lifting.

In January, on a trip up the Northeast Corridor, Gunn took his first trip aboard Amtrak's private railroad car. Normally, Gunn insists on riding with the passengers. But on this trip, he and several officials used the private car to meet and entertain rail officials in New York State and Toronto.

As the train roared up the corridor, snow swirled around his railcar's rear platform and coated the huge picture windows. At the BWI station stop, Gunn hopped up to look for a squeegee and shovel, only car attendant Lou Drummeter found them first.

"I'll take care of that, Mr. Gunn," Drummeter said.

"Oh, I can do that," Gunn replied. Drummeter ignored him.

At each succeeding stop, it was more of the same. Drummeter came back earlier and earlier to take control of the implements, eventually hiding them so Gunn could not find them.

As Gunn protested even more strongly at a New Jersey stop, the 6-foot-plus Drummeter looked down at him and said, "Mr. Gunn, this is my job security." Gunn plopped back into his chair as others in the car howled with laughter.

"I feel so useless," Gunn said.

Early in his tenure at Amtrak, Gunn did away with most of the perks of his office, selling the executive limousine and SUVs and reassigning the drivers to the Amtrak police department. He refuses to work on a computer and will not wear a cell phone. He goes to work by public transportation.

Despite an affinity for the working man and woman, Gunn can be a no-nonsense disciplinarian. He listens to subordinates, but when he reaches a decision, there is only one way: his. Last year, Executive Vice President Stan Bagley resigned over disagreements on cost cutting, a blow Gunn took personally because the two had initially hit it off well. Gunn later said he did not sleep the night after Bagley left.

In mid-March, he caught a conductor smoking on board a train, a clear violation of the rules. After thinking about it overnight, he sent a letter to all employees reminding them of the policy and giving them an unmistakable warning: "In retrospect, I should have acted more forcefully and I will in the future."

A lifelong bachelor, Gunn has, figuratively at least, been married to railroading and transit. Early in his career, he was effectively fired from the Santa Fe freight railroad after arguing with superiors over the pricing strategy for a Chicago-California train, the Super C, that was his creation. "They told me, you either shut up or go away," he said.

His first transit job was Operations Director of Commuter Rail for the Massachusetts Bay Transportation Authority, which he chose to leave after a new governor took office and he felt political pressure to depart. He went on to manage commuter systems in Philadelphia, New York and Washington before "retiring" in 1999 as General Manager of the Toronto Transit Commission. He was at home in Nova Scotia when a headhunter called about the Amtrak job.

Gunn had once turned down the Amtrak presidency. But with a full career behind him, and after two years sitting at home, he had little to risk and could not resist one more challenge.

"I miss work," he said. Gunn's method of operation is always the same: Quickly determine how many people it takes to efficiently operate whatever he has just taken over, then get rid of the rest. Get a handle on the finances and then start cutting costs. Look for rule breakers and crooks, and make examples of them. Take symbolic steps such as getting rid of limousines. Talk straight and be open, even when it hurts.

A comparison of his first years at Washington Metro and Amtrak are striking.

Four days after taking over at Metro in March 1991, Gunn announced plans to cut 320 employees, 29 of them immediately. Three weeks after he took over at Amtrak last May 15, he announced a reorganization that would cut 300 management positions and reduce the number of vice presidents to 20 from 86. At last count, he had eliminated 988 employee positions, about 4.5 percent of the workforce.

Four months after taking over at Metro, he announced that an investigation had uncovered mismanagement, impropriety, drug abuse, favoritism and waste among maintenance employees. At Amtrak, Gunn's lieutenants paid a surprise visit one night to a repair shop in Indiana and found some employees sleeping, goofing off and otherwise not doing their jobs.

His passion for cleanliness won him national attention in the 1980s when he was president of the New York Transit Authority, where he largely succeeded in an ini-

tially ridiculed campaign to wipe graffiti off the subways. At Metro, he became popular with passengers partly by cleaning up buses and trains, and repairing and replacing aging rail cars. At Amtrak, he ordered a general cleanup that included selling or scrapping derelict locomotives and passenger cars.

But at Metro, Gunn was considered a loose cannon. He revealed unpleasantries such as the maintenance investigation and insisted on complete management independence. Within weeks of taking over, he announced a reorganization of the staff without telling the board in advance. Worse, he followed the popular Carmen E. Turner, who knew how to work within the system. Gunn submitted his resignation in 1993 amid increasingly public criticism from board members.

Still, even those at Metro who disagreed with his style leave little doubt that they respect him.

"If Amtrak can be saved, I think David Gunn has the skills to do it," said Washington consultant Beverly R. Silverberg, who resigned as Metro's chief spokeswoman in 1992 because she thought Gunn was too negative about Metro's problems.

At Amtrak, Gunn enjoyed the advantage of having no positive image to defend. Despite insisting for years that Amtrak was on the "glide path" to self-sufficiency, Warrington had been forced to mortgage New York's Penn Station just to keep trains running.

Auditors for the General Accounting Office and the Transportation Department's inspector general often shook their heads trying to make sense of Amtrak's books. In the last year before Gunn arrived, Amtrak's auditors refused to certify the financial results.

Gunn spent months pushing his financial managers to produce meaningful, understandable numbers. He now releases a monthly financial report as voluminous as the Montgomery County phone book.

Those books show that Amtrak, under Gunn, has weathered relatively well a general downturn in travel that cut deeply into revenue. For the fiscal year through the end of February, revenue was $62.9 million below budget. But operating expenses were $58.8 million below budget. For the first quarter, the figures had been even more dramatic—revenue $29.4 million below budget but expenses $40.8 million below budget.

Some of the savings can be attributed to job cuts, but much came one increment at a time. Many of those increments came straight from Gunn's observations and his tendency to act immediately when he sees something he does not like.

On one short trip to Florida, for example, Gunn discovered that in Miami—the terminating point for three Amtrak trains—the railroad was paying hundreds of thousands of dollars a year to have a switch engine and crews from CSX Transportation available 24 hours a day. The engine's main duty was to deliver those trains to a servicing facility and turn the southbound trains around for the trip back north.

"Why don't we just use the road locomotives to do that?" Gunn snapped, referring to the engines that pulled the train down. "This isn't rocket science."

But he has not cut blindly. In fact, Gunn has even rescinded some cuts.

During a 10-day cross-country train trip, Gunn was bored seeing the same food every day and ordered that different menus be introduced each day in a repeating cycle. On another trip, a chef told him that spices had been axed from the supply lists in Amtrak's dining car kitchens as a cost-cutting measure. Chefs were generally buying their own spices. They do not have to anymore.

"It was stupid," Gunn said. "You can't let service collapse. A dining car obviously spends a lot of money, but you've got to have it."

It is a "myth," he said, that sweeping programs make an organization successful.

"Life is not like that," he said. "You take a lot of little actions."

Gunn has long claimed that he does not "do politics," and his job history seems to bear that out. But that does not mean he cannot be political when he wants to be.

On June 5, just three weeks after taking his job, Gunn announced that Amtrak's financial condition was so bad that the system would have to shut down in July unless it received a $200 million loan within three weeks.

The Senate Committee on Commerce, Science, and Transportation, headed by longtime Amtrak critic John McCain (R–AZ), sent along a series of questions.

The next morning, Gunn handed Joe McHugh, his governmental affairs vice president, a yellow legal pad with a handwritten letter to include with the answers to McCain. The letter said that just about every McCain criticism of Amtrak over the years was true.

After outlining a laundry list of problems he found, he wrote: "This is not a way to run a railroad and not the way I will run the railroad. Too many happy words have hidden some very dismal financial results."

McCain called Gunn's letter "surprisingly refreshing." With McCain's support, Congress quickly appropriated $200 million to keep the wheels turning.

During that same period, Amtrak was negotiating with the Bush Administration for a temporary loan. Deputy Transportation Secretary Michael P. Jackson demanded that Amtrak adopt a list of "reforms" as a condition of getting the loan. Gunn found some of the conditions unacceptable.

On June 21, as the decision on a shutdown loomed, Gunn let drop almost matter-of-factly that any commuter trains run by Amtrak or that use Amtrak tracks or facilities would also have to shut down because there would be no dispatchers, train crews, maintenance crews or even liability insurance to keep them running. Suddenly the whole political climate changed. It was not just an Amtrak story anymore.

Cities and states demanded action.

Caught off guard, the Administration granted the loan and dropped the conditions that Gunn did not like.

Jackson calls Gunn's tactic "a source of friction" that "frankly, has rebounded against him and has not been a positive thing for Amtrak." He said he had told Gunn that the Administration would find a way to keep Amtrak running, and "no way was it fair to threaten a shutdown."

Nonetheless, Jackson has praised Gunn more in public forums such as Congressional hearings. "He's tough and stubborn," Jackson says, "but then so am I."

The shutdown crisis made many in Congress more aware that some politically popular but money-losing routes were in danger of being discontinued, prompting it to pass a fiscal 2003 Amtrak budget with subsidies of a little more than $1 billion, virtually everything Gunn said it needed. Administration rhetoric has toned down, and President Bush has proposed $900 million for Amtrak in fiscal 2004. That is much less than the $1.8 billion Gunn says it needs but far more than any Administration has ever proposed.

On the other hand, Gunn's tactics at least temporarily poisoned Amtrak's relationships with commuter agencies, some of whom have threatened to look for a company other than Amtrak to run their trains. Among those agencies was Virginia Railway Express.

However, Pete Sklannik Jr., VRE's operations manager, said that Gunn has made up a lot of lost ground since then, and that VRE is now negotiating with Amtrak alone on a new contract.

"The [shutdown] tactic, in a strange way, brought us together," Sklannik said. Even as he has been so outspoken on other issues, Gunn has avoided being dragged into the perennial debate over what to do about long-distance trains, by simply refusing to say whether he thinks any of them are needed.

He says it was a "political decision" to run them, and only Congress, through a political process, can decide whether to eliminate them. He will only say that they account for only a small part of Amtrak's financial problem, using only $300 million in yearly subsidies while the Northeast Corridor requires far more money.

The Administration sharply criticized continued operation of long-distance trains in its fiscal 2004 budget proposal, but that attitude seems to have been modified somewhat. In a House hearing in early April, where Gunn and Jackson sat together, Jackson adopted Gunn's approach, saying he believes the future of long-distance trains is a political decision.

The Administration has said it wants to place the Amtrak-owned Northeast Corridor under a "public partnership" and turn Amtrak into a pure railroad operator that would be subject to competition. States would be expected to pay an increasing share of passenger-train costs. The Administration principles are generally in line with recommendations made last year by the Amtrak Reform Council.

Gunn scoffs at the ideas other than greater participation by the states, which lays the groundwork for another battle with the Administration.

"He has a vision of the railroad that is not the vision of the Bush Administration," Jackson said.

Jackson said that no matter how well Gunn runs Amtrak, "I think Amtrak is still in a crisis," and something must be done.

Thomas A. Till, former Staff Director of the Reform Council, said he thinks Gunn has "done a very good job of cleaning up a big mess." But Till said Gunn's skills will not be enough to save the passenger train, and he is afraid Gunn's actions may persuade Congress to simply keep the status quo for a while.

"It would be unfortunate, but it's conceivable, given other priorities, that we could limp along with a patched-up Amtrak—what some people call "kicking the can down the road."

Gunn now talks less of going home to Nova Scotia. At a 60th birthday party last year for Amtrak's Media Relations Director, Cliff Black, Gunn told Black he could not retire for another five years because "I'll be here five years."

"God willing and the creeks don't rise," he says, "I'm not doing this to be a short-timer."

The Washington Post, April 26, 2003

AMTRAK CHIEF UNVEILS FIVE-YEAR PLAN; $8 BILLION SOUGHT TO REPAIR INFRASTRUCTURE, TRAINS IN NORTHEAST

by Don Phillips

Amtrak President David L. Gunn yesterday unveiled an $8 billion, five-year passenger train recovery plan designed to halt deterioration in the Northeast corridor and to repair locomotives and cars.

The detailed plan provides a stark look at the condition of the infrastructure between Washington and Boston. Among other things, Gunn said an engineering survey between New York and Washington found that more than 9,800 of the large steel poles that hold up the lines that provide power to the locomotive have foundations that are "in trouble" and must be shored up.

Gunn's proposal, which is several thousand pages long, is by far the most detailed capital plan ever produced by Amtrak, giving exact budgets and schedules for thousands of projects. It envisions a Federal subsidy of $1.8 billion in fiscal 2004, gradually declining to $1.5 billion in fiscal 2008 as capital projects come on line and Amtrak is able to operate more efficiently. The total Federal subsidy would be $4.5 billion in capital funding and $3.5 billion in operating subsidies. No new services would be added, unless states pay all costs.

Congress has traditionally slashed Amtrak budgets below requests over the years. But there are indications that Congress is paying more attention to Gunn's requests than to those of most of his predecessors. In the current fiscal year, the Bush Administration requested $521 million for Amtrak, but Congress approved $1.034 billion, just slightly less than Gunn requested.

Gunn said that without that amount of money, deterioration would continue, and that would force Amtrak trains to slow down, ending high-speed rail service in the one place in the United States where it is now available.

"If the capital plan is under-funded, then the whole thing falls apart," Gunn said at a press conference yesterday.

Gunn said Amtrak spent an average of $1.5 billion a year more than its revenue between fiscal 1997 and 2002, by borrowing against assets such as New York's Penn Station. Amtrak now owns almost nothing outright and has more than $250 million a year in debt, Gunn said.

Deputy Transportation Secretary Michael P. Jackson, who is also a member of the Amtrak board, said the plan is "more meticulous, thorough and thoughtful than has been presented in the past." But he said it is "incomplete" because it fails to quantify many issues, mainly "vulnerabilities" such as looming requirements under the Americans with Disabilities Act. He also noted that Gunn says that new passenger equipment must be ordered after the end of this five-year plan, but he did not quantify the cost.

Congressional reaction is expected to come quickly. Gunn will appear Tuesday before the Senate Committee on Commerce, Science, and Transportation, and on Wednesday he will address the railroad subcommittee of the House Transportation and Infrastructure Committee.

Much of the work under Gunn's plan would be concentrated between New York and Washington, but some of the most urgent individual projects are north of New York, including the replacement of three major bridges in Connecticut.

Two bridges in Maryland will need major repair work, including the bridge over the Susquehanna River at Perryville. The B&P tunnels south of Baltimore's Penn Station and a tunnel south of Washington's Union Station also will need major work.

The plan also calls for replacement of dispatching centers and installation of modern signal and communications systems. The electric traction system would largely be rebuilt.

However, the electric upgrades do not include a "constant-tension" electric wire structure that would allow 150-mph speeds south of New York. Gunn said that could be added relatively easily later, after the structure has been strengthened.

The CHAIRMAN. Thank you, Sir.

I think the President's words were "itty-bitty."

Senator HOLLINGS. Itty-bitty, that's—excuse me. It's something like that. Itty-bitty.

[Laughter.]

The CHAIRMAN. Senator Hutchison?

STATEMENT OF HON. KAY BAILEY HUTCHISON, U.S. SENATOR FROM TEXAS

Senator HUTCHISON. Thank you, Mr. Chairman.

Mr. Chairman, I think that we have allowed Amtrak to be nibbled to death by ducks, and we have starved them, and we have watched them have different general managers that come in and say, "Yes, we're committed to a national system," and then by the end of their time, they're into just having a Northeast Corridor system for our country. And as I understand it, the new Amtrak strategic plan is $10 billion over 5 years to basically redo the Northeast Corridor of Amtrak and, once again, leave out the rest of the country.

Now, I think we have got to stop just giving Amtrak a little bit here, making them come and beg for supplemental appropriations to stay in business, mortgage Penn Station to keep on operating. That is not ever going to produce a national railroad. And I really believe in a national railroad. I really want one.

I want a national railroad that is a skeleton that goes across the top of America, down the West Coast, across the bottom of America, up the East Coast, and right down the middle, from Chicago to Dallas to Houston or San Antonio. I think that would be a national system, from which you would have, then, the capability to have a lot of offshoots, have State help for that, have consortia, have State groups, have local mass transit feed into these national skeleton systems. We could have a great system, or we could have a mediocre-to-pitiful system, or we could do away with it.

And I have come to the conclusion that we should either have a great system or do away with it. And I don't think a Northeast Corridor is worth it to the taxpayers of our country, because it is not a national system.

So I think we need to find out from the experts here if we can have an Amtrak that is a national system, what it will cost to do it right, how we can deal with the railroads, some of which are cooperative and some of which are not. And I want something different, something bold, and something that has a chance to succeed.

I've been in Congress 10 years, and all I've seen is just dribble, dribble, dribble, dribble, and nothing is different. So, Mr. Chairman, you have said all along that it should be zero. If I don't see a real chance—and I am the Chairman of the Surface Transportation Subcommittee, so this is my area of jurisdiction—if I don't see a chance for a successful national system, which I really do think we need and which I think would be very shortsighted to lose, then I'm going to be a convert to your position.

But I hope that that is not what we do. I hope that we have a revenue stream. I hope that we have a plan. I hope that we make a commitment to a national system, because I think we need that alternative for real mobility in our country.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.
Senator Burns?

STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Senator BURNS. Thank you, Mr. Chairman.

In the essence of time, I'll submit my statement. I have a mark-up over in Energy here coming up pretty quick, and that's very, very important to us, too. But I just want to submit my statement and hear some of the testimony.

Thank you very much.

The CHAIRMAN. Without objection.

[The prepared statement of Senator Burns follows:]

PREPARED STATEMENT OF HON. CONRAD BURNS, U.S. SENATOR FROM MONTANA

Thank you Mr. Chairman, I will keep my statement short and I would like to welcome the panel.

The daily service provided by Amtrak is a vital means of transportation to the Montanans along the Northern tier of my state. So I have many concerns about the future of Amtrak—not only as a service provider to my constituents but also as a way for the rest of the Nation to see Montana from a different perspective.

We all agree that Amtrak is an important means of passenger transportation across our Nation, and in some cases the only means. As a result, we need to provide Amtrak with the resources to become self-sufficient and still remain within our budget restraints.

Our Nation's rail service was the first mass transport of passengers and goods from the East coast to the West coast. It's hard to imagine that this replacement to the Pony Express and the stagecoach of the Old West is still one of the most efficient and underutilized forms of transportation in our country.

Amtrak's financial problems are a barrier to eventual privatization. If Congress is unable to address those problems now, we are setting ourselves up for future problems that will dog us until we do address these concerns.

I look forward to hearing from the witnesses on this matter and I look forward to hearing from the panel on their thoughts for the future of Amtrak.

Thank you, Mr. Chairman.

The CHAIRMAN. Senator Lott?

STATEMENT OF HON. TRENT LOTT, U.S. SENATOR FROM MISSISSIPPI

Senator LOTT. Thank you, Mr. Chairman, for having this hearing. I, too, want to hear what the witnesses have to say. I may have some comments or questions later, but I'd like to withhold at this time.

Thank you.

The CHAIRMAN. Thank you very much.

We have Mr. Michael Jackson, who is the Deputy Secretary, U.S. Department of Transportation; Honorable Kenneth Mead, Inspector General, U.S. Department of Transportation; and Mr. David Gunn, President and CEO of National Railroad Passenger Corporation.

Welcome to the witnesses. We'll begin with you, Secretary Jackson.

STATEMENT OF HON. MICHAEL P. JACKSON, DEPUTY SECRETARY, DEPARTMENT OF TRANSPORTATION

Mr. JACKSON. Mr. Chairman, thank you very much for having me here today. Senator Hollings, members of the Committee, I'm

grateful to have this opportunity to discuss the future of passenger rail service in America.

I begin with the obvious that has been stated here today, Amtrak is in a state of crisis. It has been from its very beginning, and my prepared testimony provides some additional detail on this, and I shouldn't try to summarize that here before you. But the punch line is, is that we have this crisis, that taxpayers are providing huge subsidies, there's a $6 billion capital backlog, a balance sheet laden with debt, a recent history of near bankruptcies, and more. And so in what follows, I'd like to talk about the path out of this mess.

Before discussing intercity passenger rail and its future, I would like to join some of the Members who have spoken to David Gunn's stewardship in the last year at Amtrak. I think we have made significant progress. He is doing tangible and important work to bring business discipline and transparency into the operation at Amtrak. All that's welcome. The management team has a daunting challenge, and it has a good team working against those challenges.

But recent management discipline and the new oversight authority granted in the new Omnibus Appropriations Act will not alone get us out of this crisis or alleviate three decades worth of problems at Amtrak, nor will the problems simply go away with a liberal dosage of more Federal funds. We have to do something different. Structural reform at Amtrak is really the only way to avoid having to return to this committee and to the rest of the Congress year after year with a series of surprises, "Oops, we've got this problem." This is just no way to do business. I concur with the Committee's stated views on that issue, as well.

In June of last year, Secretary Mineta spelled out five principles for the Bush Administration in what we will argue as a necessary framework for thinking about reform. Anticipating Congressional action on authorization sometime this year, the Administration has proposed funding of Amtrak in fiscal year 2004 at a level of $900 million. I'll repeat today what the Department of Transportation said in announcing this figure. This is a budget proposal with a message, and the message is, we must reform Amtrak, we must look at the structure of how we're spending money on intercity passenger rail.

Many of the central questions will involve money. Amtrak's management has produced a first draft of a plan which shows us spending or needing, just to sustain the system that we have, some $2 billion annually. There are a number of things that the Board of Directors have asked David and the management team to go back and provide additional details about what constitutes liabilities and risks to this plan which could cause those numbers to grow and, in some cases, grow very, very significantly. In addition, at the end of this plan that David has submitted, as it states, we face a huge investment potentially in rolling stock if we're going to continue to maintain the system we have. The trains that Amtrak has are old, and they will need replacement if we are going to simply operate with the same business model and the same network and infrastructure that we have rolling here today. So, there is a looming substantial investment just on the other side of that bar graph for the 5 years that you've already seen.

The new authorizing legislation for intercity passenger rail will presumably also address the interests and the proposals that we have had placed before the Congress and the Administration for high-speed rail. For a while, Amtrak tried to intertwine its future with that of the multiple corridors around the country that were seeking an opportunity to build intercity passenger rail. It was a way of providing a political alliance that might throw enough money to make both of these entities, or both of these enterprises, possible. We need to disentangle and understand what we're being asked to invest in and look at high-speed rail, not to mention Maglev demands on the Congressional appropriation process.

Some argue that it's inevitable that the Federal Government has to spend large sums of money to support intercity passenger rail. That's flawed logic and counsel that we can ill afford. In fact, Amtrak's core business design suffers from structural rot. It is bankrupt at the core and we need to look at the structure of how we manage intercity passenger rail.

Consider, for example, the failed glide-path mandate that was given to Amtrak in the last reauthorization cycle. What happened, rather than producing operational self-sufficiency, is that Amtrak delivered stratospheric debt and pervasive financial legerdemain. We hocked our access rights to Penn Station and grew the debt at a significant pace in order to try to appear to be on this glide path. It was folly, but it was a result of the structural flaws in the way that we fund and structure and manage and operate intercity passenger rail. So rather than producing operational self-sufficiency, we had these other problems.

Just think for a second about the failure to terminate long-distance rails. We basically have a network and a grid, a national grid, that was created more than 30 years ago, and it is simply not possible, apparently, for Amtrak, as an entity, as it's currently structured, to be able to address the question of what routes we should run and how we should price these in a way that prevents the type of subsidies that we've discussed here, Mr. Chairman, that you mentioned in your opening remarks.

I think we have had a fragile political coalition that has nailed this together. There are obviously other factors that make it difficult to change. The labor termination costs, obviously, mean that, in the first year or two, you don't really find savings. So we have to look at the structure of how these problems intersect with each other and ask what to do.

In fairness, I believe that many of the Members of Congress who voted in the last authorization for this reform board, this reform of Amtrak, thought that they would be delivering a company that could operate without Federal subsidies. And our problem, I think, is that we were insufficiently bold and fundamentally flawed in how we left the structure of Amtrak on the table at that point.

So this Administration supports an authorization for a period of 6 years. I think it's going to take us a little bit longer than the previous term of 4 to get this right. We should not precipitously jump into a reform that imposes obligations and burdens that we cannot sustain. But, by the same token, we cannot do the same thing for the future.

Intercity passenger rail, at the end of a 6-year authorization period, what would it look like? I'd like to just dwell for a moment on if we were going to try to reform what we have today, what would it look like by the time we got to the end? And in this time, we wouldn't just say, "Hope you do something better and operationally self-sufficient, and see you at the end gate." Instead, we would put very specific gates, demands, and responsibilities on the system, and we would measure them and hold accountable our transition to a new way of doing business.

So what does that new way of doing business look like? I think perhaps that's the most meaningful way for me to dig into what is, in fact, a very, very complex set of interlocking problems. First of all, intercity passenger rail would be an economically viable and meaningful mode of transport contributing to the overall transportation infrastructure in America. The Federal role in passenger rail, however, would be significantly different. It would look much more like the way that we manage our relations and our investments relative to the transit industry and operated by the Federal Transit Administration through its programs than it does today.

The Federal Government would continue to define rail safety standards and to enforce those standards. We would provide capital grants to State governments and consortia of State governments that seek to operate intercity passenger rail. State government agencies would determine the level of passenger services needed, the price for such service, and they would contract with third-party operators, presumably with a restructured Amtrak operating company to operate at the beginning and through a significant portion of this reauthorization period, but ultimately would have the option for some competition, if the states chose to do so.

For a period of years, the Federal Government would continue to supply a disproportionate amount of the capital needed to put our system in a sufficiently good state of repair to move forward in a coherent fashion. By the end of this reauthorization cycle, however, by the end of the 6 years, we would expect that State governments would provide at least 50 percent of needed capital investment for all intercity passenger rail and any operational subsidies that would be necessary to continue to operate intercity passenger rail.

The Federal Government would assume, over this period of time, new and expanded roles, particularly to support the formation of these corridor-based rail operating entities. The Administration will request continuation of the type of grant-making and financial oversight that was provided in the Omnibus Appropriations Act in 2003. The Department, rather than Amtrak, would exercise its statutory authority to assign passenger rail operating rights to a single party—not multiple entities, but to a single party—at the request of a state.

We don't propose to eliminate intercity passenger rail, but we do propose a comprehensive structural change to implement at a prudent pace spanning this 6-year period. Amtrak would be required to form a pure operating company, one that does, indeed, make a profit by providing excellent service for its government customers. It would be irresponsible to eliminate Amtrak altogether, but it would also be an equal folly to ignore the fact that what we have is in a persistent and thorough-going crisis.

One cornerstone of this principle is to continue vital rail services while we implement these reforms. So I think it's important to understand that we have to unpack the problem of the Northeast Corridor in a meaningful way, and we have to look at the question of how you provide meaningful service around the rest of the country at the same time. But the ways of doing that will differ, I believe, because of the fact of the ownership by Amtrak and the Federal Government's equities in the Northeast Corridor. So we have to look at both. They're two related and intertwined problems, but separate exercises from a business-structuring point of view.

We have to balance the interests of commuter rails and also of the freight railroads in this provision. If this model is embraced, I personally think that the Nation will see more, rather than less, intercity passenger rail, and I think that effective reform need not eliminate protections afforded by the Railway Labor Act, the Federal Employers Liability Act, FELA, and Railroad Retirement. I also think the transition can be structured in a way to be sympathetic to and supported by Amtrak's employees as we make this change.

This is a very brief sketch of a very complex topic of where we end up. I would like to just do one other thing, which is to say, for a minute, a word about some key institutions that we would have to create to make this happen.

First is a Northeast Corridor Federal/State compact. I'm not coming here today with a plan that says, "Create it this way." The Administration's legislation will not say, "It must look exactly like this and perform like this." I think we have to take a more modest step and put in the authorization legislation language that defines, with clarity and certainty, a process that will yield a Federal/State compact that can own and manage this important infrastructure. I don't think it's going to be easy to do this with a snap of the fingers, but I think it is possible to tackle problems like this and create this type of structure. I'd be happy to answer further questions about what we think that might look like.

I would also, then, point out that, on the State side, we should stimulate the formation of regional rail-operating companies in one State and in multiple-state clusters to help manage intercity passenger rail. And, just like with transit appropriations and our transit management programs, State entities that can come to the table with a clear finance plan, with a plan to be operating in a self-sufficient fashion and with the disciplined and accounting tools necessary to convince the government that investment is a fair and prudent act.

At Amtrak, we have to do a number of things to restructure and organize. We shouldn't do it overnight. We should do it in a steady and clear fashion. But we should do two things at least, and start doing those in the first year while maintaining the core structure that we have for that first year. And that is to create an NEC infrastructure company first. This would be a company that would take existing parts of Amtrak and then, in conjunction with the creation of the new Federal/State compact to operate the corridor, would provide the people, the skills, the experience, and the tools to operate the corridor under contract from the Federal/State partnership to this legally separate entity. I think we would start by

a gradual division within Amtrak itself, and move to a separate and freestanding company, a for-profit business at some juncture during the period of the authorization. And, finally, we would take a corporation, call it Amtrak Operations, and make this the vessel to operate, on behalf of States and coalitions of States, the train service that this country chooses to make.

It is important, in underlying both of these types of Federal, State, and private-sector structures, that we realign the incentives so that the private businesses are paid for by public entities who decide among multiple transportation priorities and make modal choices based upon the available funds and needs.

So, in conclusion, Mr. Chairman, passenger rail is an important component of our national transportation infrastructure. Members of Congress committed to passenger rail need not mistake or fear that the conviction for structural reform is a Trojan Horse which hides a desire to explode intercity passenger rail. Quite the contrary, it is one that intends to make the possibility of intercity passenger rail work over the long haul.

Some will disparage the call for route and branch reform, in part, because it's so difficult. The Bush Administration's proposals do not rely upon a quick fix, nor is the fix an easy fix, but it is a responsible choice to make structural reforms now and not to come back before this committee year after year after year with yet another crisis.

There is, then, much work ahead of us. Secretary Mineta and his team look forward to providing the flesh on the bones of this testimony that I've laid out. I look forward to working with the Committee and answering any questions that you may have.

Thank you very much.

[The prepared statement of Mr. Jackson follows:]

PREPARED STATEMENT OF HON. MICHAEL P. JACKSON, DEPUTY SECRETARY, DEPARTMENT OF TRANSPORTATION

Chairman McCain, Senator Hollings, members of the Committee, I appreciate this opportunity to appear before you today to discuss Amtrak and the future of intercity passenger rail service in America.

I. Amtrak's Recurrent Crisis

I begin with the obvious: Amtrak is an organization with profound financial difficulties. Its current budget request to Congress acknowledges that "for over 30 years, Amtrak has lurched from one financial crisis to another."

Amtrak was created with the illusory expectation that it would soon achieve profitability. Instead, it became dependent upon ever-increasing and now unsustainably large Federal appropriations. This dependency on Federal funds is pegged by Amtrak to be up to $2 billion annually for the foreseeable future [1]—with Amtrak's FY 2004 budget request up over 80 percent from the current fiscal year and over 250 percent above FY 2001.

The Department of Transportation (DOT) expects that each and every one of Amtrak's 17 long distance trains will this year lose money on a fully allocated cost basis, even excluding depreciation and interest. On a fully allocated cost basis including depreciation and interest (a more accurate measure of overall Federal investment), all of Amtrak's 43 regularly scheduled routes lose money. Ten of its 17 long distance train routes have a net loss of more than $40 million per year. On a per passenger basis, the loss for long distance trains ranges from $131 per passenger to $551 per passenger. Counting long distance and corridor trains together, Amtrak has 25 routes that DOT expects will this year require a subsidy of over 25 cents per passenger per mile of travel.

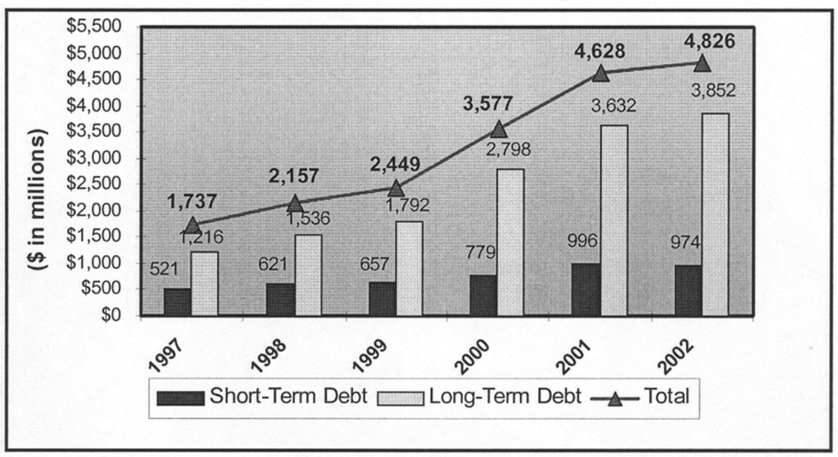
[1] Amtrak has requested $1.812 billion for FY 2004.

Appendix 1 provides DOT's FY 2003 forecast of passenger revenue and expenses for all of Amtrak's routes, reflecting the most recent Amtrak business plan submitted to the Department. Appendix 2 provides more detail about the Department's implementation of our new statutory authority to require in FY 2003 that Amtrak live within its Congressional appropriation. We will continue to monitor Amtrak's performance and will provide updates to the Committee periodically throughout the remainder of the fiscal year.

If anything, these route subsidy figures underplay the true financial difficulty that faces Amtrak. In order simply to meet payroll, Amtrak has for years also deferred long-term investment work, the true cost of which is not fully known. The DOT Inspector General estimates Amtrak's deferred capital investment backlog to be $6 billion. Last week, Amtrak's Board of Directors received from management a first draft of staff's estimate of capital and operating needs for the next five years. The Board has requested that David Gunn provide additional detail about several considerable risks to the plan. The draft also identifies, but does not yet cost out, a need for large capital investments for replacement of old rolling stock within ten years. One thing is certain at this juncture: the present and future capital needs of Amtrak are another large potential liability.

In addition, and animated perhaps in part by an aversion to declaring its failure to meet the operational self-sufficiency mandate, Amtrak's total debt grew from $1.7 billion in 1997 to $4.8 billion in 2002. Figure 1 illustrates the growth in Amtrak's total debt.

Figure 1 Amtrak Short-Term and Long-Term Debt



(Source: U.S. DOT Inspector General)

Because of this increased debt, naturally Amtrak's annual debt service has grown substantially, adding a large up-front cost to its business plan. Annual debt service requirements (principal and interest) are forecasted to be $278 million in FY 2004 (up from $111 million in 1997). This means that debt service will consume over 15 percent of Amtrak's requested FY 2004 appropriation of $1.8 billion. In short, Amtrak has leveraged its assets very aggressively.

As you know, in each of the last two years, the Department of Transportation was obliged to take extraordinary measures to help Amtrak avert bankruptcy. We reluctantly allowed Amtrak to mortgage Penn Station in New York City in the summer of 2001 and provided Amtrak a $100 million loan under the Railroad Rehabilitation and Improvement Financing (RRIF) program in the summer of 2002. Last year's RRIF loan was further augmented by a $205 million emergency appropriation voted by Congress to prevent a fourth quarter shutdown at Amtrak. That narrowly averted shutdown not only would have stranded Amtrak's customers, but also would have affected hundreds of thousands of commuter rail passengers who rely on Amtrak's commuter support services and infrastructure.

In what follows, I would like to outline the Administration's recommendations for passenger rail authorization.

II. Authorizing Intercity Passenger Rail Anew

Before discussing the future of intercity passenger rail in more detail, I'd like to say a word about the team that is managing ongoing operations at Amtrak. Since arriving at Amtrak almost a year ago, David Gunn has worked with the Amtrak Board of Directors to reduce operating expenses, de-layer management, improve customer service, address the numerous material weaknesses identified by Amtrak's auditors, instill financial discipline, and provide Congress and the Administration with more accurate and timely financial data. David and his management team have achieved meaningful improvements.

Having represented Secretary Mineta on the Amtrak Board for the past two years, I have been impressed with David's work and candor, even when we have occasionally and respectfully disagreed. David has a daunting task, but he and his team have made progress worthy of honest praise.

Recent management discipline and new oversight authority, however, will not alleviate the ongoing crisis of three decades at Amtrak. Nor will the problems at Amtrak simply go away with a more liberal application of dollars drawn from the Federal treasury. The *status quo* organization cannot stretch to resolve these and other inherent weaknesses with which Amtrak has struggled to live. Structural reform of intercity passenger rail is needed.

Principles of Reform. Last June, Secretary Mineta spelled out five principles that the Bush Administration argues should be part of any successful reform of intercity passenger rail service. He said we must:

- Create a system driven by sound economics.
- Establish a long-term partnership between the states and the Federal Government to support intercity passenger rail service.
- Require that Amtrak transition to a pure operating company.
- Create an effective public partnership, after a reasonable transition, to manage the capital assets of the Northeast Corridor.
- Introduce carefully managed competition to provide higher quality rail services at reasonable prices.

Anticipating Congressional action on authorization later this year, the Administration proposed funding for Amtrak in FY 2004 at a level of $900 million. Today I repeat what DOT said when announcing the Administration's FY 2004 funding request for Amtrak. This is a funding level with a message: Amtrak must undergo significant reform.

Money Alone is Not the Answer. Many of the central questions of the authorization will be financial, beginning with consideration of the enormous annual Federal subsidies—some $2 billion a year over the next five years—proposed by Amtrak. But even this proposal does not liquidate Amtrak's capital backlog. Nor does Amtrak's request include money for the multi-billion dollar high-speed rail projects advocated by others. In fact, as part of its loan to Amtrak last year, the Department prohibited further speculative outlays by Amtrak to support future high-speed rail projects. Amtrak agreed to these provisions.

The new authorizing legislation for intercity passenger rail service will presumably also address the Federal Government's role and funding commitments—if any—relative to high-speed rail and Maglev. When the whole picture is laid on the table, the potential cost is stunningly large.

Some argue it is inevitable that the Federal Government must endlessly pay giant subsidies for passenger rail. Around the globe, they note, passenger rail typically loses money. Amtrak is today a giant passenger rail system spanning thousands of miles. Ergo, it is said, the Federal Government surely must spend Brobdingnagian sized buckets of money for Amtrak.

This is flawed logic and counsel we can ill afford. It fails to recognize adequately that the vast size of our Nation and its population distribution make for a passenger rail market in the United States unlike virtually all other nations.

In fact, Amtrak's core business design suffers from structural rot. For decades, the Federal Government has embraced perverse incentives that consistently impel Amtrak to make irrational business decisions. Consider, for example, the failed experiment in the last authorization regarding the so-called "glide path." Rather than producing operational self-sufficiency, Amtrak instead delivered stratospheric debt and pervasive financial legerdemain. To look at Amtrak's dilemma more sympathetically, one could say that from the beginning Amtrak has tried to balance an ill-defined public service mandate with a clear statutory requirement to operate as a for-profit enterprise, never satisfying either.

Just take the issue of whether to modify or actually terminate long distance routes. Even though the evidence shows staggering subsidies for long-distance rail,

Amtrak has not made even modest changes to its long distance route structure in over 30 years. Why? Because we are told that the labor protection costs would, for several years, be equivalent to the cost of continued operations. More importantly, even raising this issue begins to unravel the fragile political coalition that has supported Amtrak's ever-growing annual subsidies. Imagine the impact upon our Nation's economy if other businesses faced similar structural and political impediments that prevented them from implementing any service changes.

So, more money alone is not the answer. What to do? In short: embrace a new business model for passenger rail. And because meaningful change will be difficult, we should be willing to implement needed reforms at a deliberate, but measured pace. In fairness, I believe that many Members who voted for the last authorization of Amtrak thought they were doing just that. In retrospect, that legislation was insufficiently bold and fundamentally flawed to the extent that it relied upon Amtrak to reform itself.

Passenger Rail Authorization. The Administration supports an authorization period of six years rather than four. This will give us time fully to implement needed restructuring in one authorization cycle. Perhaps it is useful to start first with a summary of where we hope to end up in those six years.

Intercity passenger rail would become an economically viable and strategically effective mode of transportation supporting numerous successful rail corridors nationwide. The Federal role in passenger rail would, however, be reformed and strengthened to mirror much more closely the current Federal program supporting mass transit.

The Federal Government would continue to define rail safety standards and enforce them. The Department of Transportation would provide capital grants directly to states and interstate consortia of states operating passenger rail. State government agencies would determine the level of passenger services needed, the price for such service, and they would contract with third-party operators to provide long-distance and corridor trains. The same program would apply to legacy long distance routes, current and new corridor services—at higher speeds or not. To the extent that states' service choices require operating subsidization, state governments would be required to provide that subsidization, no later than a specified date to be determined but within the new authorization cycle.

For a period of years, the Federal Government would continue disproportionately to fund the capital backlog for certain passenger rail projects. By the end of the authorization cycle, however, state governments would provide at least 50 percent of needed capital investment for all intercity passenger rail service.

The Federal Government would assume several new or expanded roles, particularly to support the formation of corridor-based rail services. The Administration will request continuation of the type of grant making discipline and oversight that was incorporated into the Omnibus Appropriations Act of FY 2003. The Department, rather than Amtrak, would exercise statutory authority to assign passenger train operating rights to a single party to operate intercity rail in a given corridor. Of course, such rights would be allocated to Amtrak exclusively in the first year of the new authorization period, and presumably throughout much of this transition period.

We do not propose to eliminate Amtrak, but we do propose comprehensive structural changes to be implemented at a prudent pace spanning the entire six-year period of the next authorization cycle. Amtrak would be required to form a pure operating company—one that does indeed make a profit by providing excellent service for its government customers. It would be irresponsible to eliminate Amtrak altogether, but it would be an equal folly not to reform a corporation suffering such a persistent and thoroughgoing crisis.

One cornerstone objective is to continue vital rail services while implementing fundamental reform. The future of the Northeast Corridor (NEC) should be preserved and nurtured by a new governance structure that can be sustained for the long haul. The Administration will have very specific proposals about a process to create this new governance structure, and its ultimate performance characteristics. But we start from the conviction that, because of the complexity of this matter, the pending authorization should specify only the *process* for creating such a new institution or compact, rather than attempting to impose at the outset a specific organizational structure. An appropriate mechanism would then be included within the Congressional legislation that will, in turn, yield the new governance structure prior to expiration of the authorization cycle.

We must balance carefully the interests of each of the states served by intercity passenger rail. The needs of commuter rail systems and the freight railroads are also essential equities that must be served fairly by the new partnership formed by the states and the Federal Government to own and operate intercity passenger rail.

When this model is embraced, I personally think that the Nation will likely see *more* rather than *less* passenger rail service. Effective reform need not eliminate protections afforded by the Railway Labor Act, the Federal Employer's Liability Act (FELA) and railroad retirement. I also think the transition can be structured to make supporters of Amtrak's employees, ensuring that the reformed businesses retain good jobs that are more secure.

This is a very brief sketch of what the Administration thinks is achievable for reforming Amtrak by the end of FY 2009. Without summarizing all details of the transition path that would yield these results, it is important to say a bit more about several key institutions that would make this happen.

The NEC Federal-State Compact. The Administration's proposal would create a new legal entity, a Federal-State compact to operate the NEC spine infrastructure under a 99-year lease from the Department of Transportation. It would likely take at least two years to put the new organization into place, during which period Amtrak would be required to begin its own transformation. The new NEC Compact would annually apply for and receive capital grants from the Department for corridor investment.

It would have the authority to enter private debt markets to finance NEC improvements. The NEC Compact would, with the Department of Transportation, develop a business plan to alleviate the capital backlog of projects needed to place the NEC in reasonable shape.

For most, if not all of the period of the pending authorization, the NEC Compact would contract with the NEC Infrastructure Corporation, an offshoot of the current Amtrak organization (see below) to maintain and operate the NEC in support of intercity passenger rail and commuter rail services on the corridor. At the same time, the NEC Compact would contract with Amtrak Operations to run the corridor trains.

By the end of the authorization cycle, and periodically thereafter as determined by the new organization, the NEC Compact would be required to solicit competitive bids to operate the infrastructure and to operate its intercity passenger trains. Because the Federal Government would continue to own the corridor infrastructure, it would continue to play a role in the governance of the compact for the life of the lease.

State and Regional Rail Operating Companies. The Administration's proposal would authorize multi-state interstate compacts to operate intercity rail in areas served by access to freight railroad tracks. Either individual states or Regional Rail Operating Companies (RROCs) formed for this purpose could apply for and receive capital grants from the Department for corridor modernization. They would also have the authority to enter private debt markets to finance capital improvements.

The states and RROCs would contract initially with Amtrak Operations for corridor and long distance rail services. After a transitional period to be determined, such entities would be required to solicit competitive bids to operate intercity passenger trains supported by Federal funds. The Federal role relative to these entities would ultimately be similar to the Federal Transit Administration's relationship with local transit authorities. In the transitional period, the Federal Government would have an additional role of facilitating the formation of such entities, including perhaps awarding of organizational funding grants, at the request of states.

Restructuring Amtrak. The initial year of the new authorization cycle would, in the Administration's proposal, continue the existing basic legal and operating structure of the National Passenger Rail Corporation (Amtrak). The Administration advocates immediately increasing the size of Amtrak's Board by six persons to improve corporate governance and allow the Board adequately to staff the Committee structure needed to provide appropriate management oversight.

Some functions, such as management of certain existing principal and interest payments on Amtrak's legacy debt, would, after a transition period of at least one year, be assigned to newly created structures that facilitate the statutory reform. For purposes of this testimony, I would like to highlight the Administration's recommendation to create two new organizations from within Amtrak as currently structured.

> *NEC Infrastructure.* The NEC Infrastructure Company would be a private company under contract to the NEC Compact to perform maintenance and manage the capital investment backlog program on the NEC. Both maintenance and capital work are performed with its own workforce as well as through the selection and oversight of contractors. It would be composed largely of the Chief Engineer's functions and workforce from the old Amtrak.
>
> *Amtrak Operations.* Amtrak Operations would be a private company that operates long-distance and corridor passenger service and maintains passenger

> equipment under contract to the states. Service provided is determined solely by the states and all operating equipment is either provided by the states or by Amtrak Operations, as negotiated in agreements between Amtrak Operations and its customers. It would be composed largely of the intercity train operations and equipment maintenance staff of the old Amtrak.
>
> As with the NEC Infrastructure functions, Amtrak Operations would, for a period, still enjoy its current monopoly status to operate intercity passenger rail service. In time, however, Amtrak Operations would compete in the marketplace to provide such services. As such, it ultimately should be entirely independent of direct Federal Government grants. States or RROCs operating intercity passenger rail with Federal assistance would be required to seek competitive bids of appropriate duration for rail operations.

Having announced today these broad details of the Administration's approach to the pending authorization of passenger rail, the Administration looks forward to further near-term dialogue with Congress and other key parties prior to finalizing details of our intercity passenger rail legislative proposal in the coming weeks.

Conclusion. Passenger rail is an important component of our Nation's transportation infrastructure. We stand ready to work with Congress and the states in the upcoming authorization to create an intercity passenger rail system that is driven by sound economics, fosters competition, and establishes a long-term partnership between states and the Federal Government to sustain an economically viable system.

Today there are at least two competing approaches to dealing with the Amtrak problem. On the one hand, serious colleagues believe that the best way to save intercity rail is to drop back, and spend the next four years stabilizing Amtrak as it currently exists in the hope that it can somehow gather enough political support for the substantially larger investment Amtrak would need to survive. On the other hand, the Bush Administration, the Amtrak Reform Council and numerous others have concluded that true structural reforms are needed, and needed now.

Members of Congress committed to passenger rail need not mistake or fear this latter conviction. It is not advocated by this Administration as a Trojan Horse aimed at abolishing passenger rail. Instead, it is animated by a fair desire to make some form of passenger rail service viable for the long term.

Some will disparage the call for root and branch reform in part because it is so difficult. The Bush Administration does not propose a quick fix. Indeed, not even a simple fix. But securing true structural reform is the only worthy solution for addressing such a persistent and important public policy dilemma.

There is, then, much work ahead as Congress digs deep into these issues. Secretary Mineta and his team also look forward to working with Congress to assess and implement long-term solutions to the recurrent crises that plagues intercity passenger rail. I would be pleased to respond to any questions you may have.

Appendix 1

FY 2003 Amtrak Revenue, Expense and Contribution/(Loss) Allocations

Amtrak Long-Distance Trains
FY03 Projected Revenue, Ridership, and Passenger-Miles (1)

	Route Name	Passenger-Related Revenue	Mail & Express Revenue	Other Revenue	State Support Revenue	Total Revenue	Ridership	Passenger-Miles
1	Silver Star	$ 24,266,292	$ 3,559,032	$ 33,061	$ 2,178	$ 27,860,563	252,222	176,802,411
2	Three Rivers	9,767,017	9,431,395	20,968	1,384	19,220,764	130,736	71,472,217
3	Cardinal	3,631,780	14,821	8,316	584	3,655,500	73,925	28,338,156
4	Silver Meteor	28,508,783	1,701,073	30,146	2,112	30,242,114	251,446	184,283,978
5	Empire Builder	39,835,736	6,511,175	54,344	-	46,401,255	354,307	298,352,416
6	Capitol Limited	12,022,819	5,664,242	16,333	1,160	17,704,554	164,608	89,797,068
7	California Zephyr	36,176,278	5,279,117	58,242	-	41,513,636	323,097	285,614,035
8	Southwest Chief	36,291,627	18,658,660	52,539	-	55,002,826	262,309	311,424,088
9	City of New Orleans	11,679,953	774,775	20,930	-	12,475,658	161,056	68,185,461
10	Texas Eagle	14,528,257	2,553,689	23,157	-	17,105,103	138,685	130,298,882
11	Sunset Limited	14,586,421	1,249,787	25,476	-	15,861,683	99,109	118,177,462
12	Coast Starlight	34,858,519	81,592	32,330	-	34,972,441	451,858	247,654,761
13	Lake Shore Limited	24,144,340	3,108,486	29,439	1,758	27,284,023	303,953	187,114,174
14	Palmetto	15,351,345	5,617,028	31,753	2,206	21,002,333	198,759	124,329,133
15	Crescent	24,729,643	2,967,712	36,269	-	27,733,624	245,761	146,280,347
16	Pennsylvanian	2,929,108	4,441,297	739	-	7,371,144	62,073	18,063,488
17	Auto Train	47,200,603	-	-	-	47,200,603	190,089	163,666,629
Total Long-Distance Trains		**$ 380,508,521**	**$ 71,613,879**	**$ 474,043**	**$ 11,382**	**$ 452,607,825**	**3,663,993**	**2,649,854,706**

Amtrak Corridor Trains
FY03 Projected Revenue, Ridership, and Passenger-Miles (1)

	Route Name	Passenger-Related Revenue	Mail & Express Revenue	Other Revenue	State Support Revenue	Total Revenue	Ridership	Passenger-Miles
18	Acela Express / Metroliner	$ 357,288,130	$ 42	$ 1,009	$ -	$ 357,289,181	3,049,672	535,017,563
19	Ethan Allen Express	1,672,681	6,686	4,462	659,863	2,343,693	36,150	6,783,247
20	Acela Regional/NED/Vermonter	335,191,135	3,789,449	28,891	956,885	339,966,360	5,949,464	995,212,678
21	Twilight Shoreliner	13,404,710	701,576	20,413	-	14,126,699	208,523	53,114,899
22	Maple Leaf	9,680,490	35	21	-	9,680,547	190,985	56,817,988
23	The Downeaster	4,608,938	497	426	941,713	5,551,574	287,256	26,765,687
24	Clocker Service	19,067,618	-	-	-	19,067,618	1,921,749	92,332,379
25	Keystone Service	21,800,183	544	-	4,778,305	26,579,032	899,414	75,998,943
26	Empire Service	39,072,447	13,076	8,641	-	39,094,165	1,003,106	152,053,080
27	State House	5,718,484	302,216	2,240	4,084,840	10,107,781	220,299	41,640,778
28	Hiawathas	6,551,437	47,348	1,517	5,507,615	12,107,917	381,156	31,503,521
29	Wolverine	9,813,014	11,017	5,739	-	9,829,771	286,092	61,620,187
30	Illini	2,904,430	-	-	2,759,835	5,664,265	90,222	18,373,802
31	Illinois Zephyr	2,352,440	-	-	2,979,389	5,331,829	90,905	15,967,648
32	Heartland Flyer	883,432	-	-	5,262,400	6,145,832	49,096	7,505,412
33	Pacific Surfliner	30,310,830	9,620	6,265	21,561,447	51,888,161	1,811,150	167,140,557
34	Cascades	13,730,382	45,263	29,145	17,728,882	31,533,672	593,327	87,491,079
35	Capitols	11,571,382	640	-	22,051,327	33,623,349	1,112,304	75,060,073
36	San Joaquins	18,196,687	6,616	1,582	29,053,490	47,258,375	736,044	115,129,636
37	Adirondack	4,377,233	11,256	7,386	879,152	5,275,027	93,781	28,299,370
38	International	2,693,290	-	-	3,964,937	6,658,227	85,274	18,687,678
39	Kentucky Cardinal	389,898	465,900	-	-	855,798	23,070	5,060,262
40	Mules	3,111,265	3,720	-	6,478,653	9,593,638	135,040	25,723,491
41	Pere Marquette	1,650,536	-	-	2,410,270	4,060,806	63,006	9,621,371
42	Carolinian	11,432,706	938,011	16,661	3,000,043	15,387,421	209,204	67,991,948
43	Piedmont	563,259	4,525	3,412	2,746,670	3,317,867	41,209	5,090,135
Total Corridor Trains		**$ 928,037,039**	**$ 6,358,042**	**$ 137,810**	**$ 137,805,716**	**$ 1,072,338,608**	**19,567,498**	**2,776,003,412**

Amtrak Long-Distance Trains
FY03 Projected Expenses

	Route Name	Avoidable Expense (2)	Remaining Expense (3)	Interest Expense (4)	Depreciation Expense (5)	Total Expenses
1	Silver Star	$ 28,274,298	$ 29,691,828	$ 3,418,721	$ 16,895,725	$ 78,280,573
2	Three Rivers	19,925,787	33,179,438	3,281,934	11,316,106	67,703,264
3	Cardinal	9,355,148	7,090,427	1,013,738	2,879,887	20,339,200
4	Silver Meteor	24,230,415	26,582,184	2,983,521	15,855,042	69,651,161
5	Empire Builder	53,877,541	37,925,901	8,129,709	13,872,394	113,805,545
6	Capitol Limited	19,816,711	21,384,923	3,628,433	5,486,973	50,317,040
7	California Zephyr	54,016,152	40,420,260	8,223,544	14,760,451	117,420,408
8	Southwest Chief	63,208,506	60,130,842	11,395,569	18,695,880	153,430,798
9	City of New Orleans	16,956,937	13,186,930	2,437,753	4,726,803	37,308,424
10	Texas Eagle	27,975,425	18,082,706	3,450,721	6,135,790	55,644,642
11	Sunset Limited	29,200,740	21,111,577	7,665,440	10,745,327	68,723,084
12	Coast Starlight	41,750,008	30,782,142	9,481,122	12,050,870	94,064,142
13	Lake Shore Limited	30,256,115	37,630,418	4,267,291	12,099,953	84,253,777
14	Palmetto	23,012,590	27,689,275	2,792,916	12,338,574	65,833,355
15	Crescent	30,354,205	30,211,508	3,558,028	15,934,518	80,058,259
16	Pennsylvanian	11,962,541	20,326,783	2,438,327	6,825,699	41,553,350
17	Auto Train	36,402,693	23,178,046	9,759,964	10,977,404	80,318,107
Total Long-Distance Trains		$ 520,575,814	$ 478,605,187	$ 87,926,732	$ 191,597,397	$ 1,278,705,130

Amtrak Corridor Trains
FY03 Projected Expenses

	Route Name	Avoidable Expense (2)	Remaining Expense (3)	Interest Expense (4)	Depreciation Expense (5)	Total Expenses
18	Acela Express / Metroliner	$ 139,749,617	$ 147,810,290	$ 30,551,801	$ 114,363,767	$ 432,475,475
19	Ethan Allen Express	2,363,375	2,718,515	231,092	607,239	5,920,221
20	Acela Regional/NED/Vermonter	189,460,775	200,517,365	12,247,142	154,264,966	556,490,248
21	Twilight Shoreliner	14,164,284	15,162,404	1,446,732	10,493,008	41,266,428
22	Maple Leaf	6,754,663	7,510,604	610,923	3,306,395	18,182,585
23	The Downeaster	5,059,280	5,612,324	307,415	2,556,302	13,535,321
24	Clocker Service	12,367,011	12,969,282	630,864	10,793,872	36,761,029
25	Keystone Service	21,732,220	22,711,557	2,294,919	19,446,901	66,185,597
26	Empire Service	34,932,568	39,414,662	3,620,885	13,627,135	91,595,249
27	State House	10,801,193	12,324,651	1,626,460	3,379,256	28,131,559
28	Hiawathas	10,715,286	12,356,604	1,303,090	2,564,265	26,939,246
29	Wolverine	12,830,638	14,608,591	2,199,154	4,206,701	33,845,084
30	Illini	3,457,970	3,893,113	639,596	1,400,728	9,391,407
31	Illinois Zephyr	3,535,533	4,000,408	668,691	1,311,046	9,515,678
32	Heartland Flyer	2,264,181	2,495,373	298,299	1,242,929	6,300,783
33	Pacific Surfliner	33,038,035	37,237,903	8,659,592	13,125,435	92,060,965
34	Cascades	19,358,847	22,556,184	1,093,586	3,225,803	46,234,420
35	Capitols	18,259,691	21,640,291	386,018	830,671	41,116,671
36	San Joaquins	26,679,236	31,605,319	607,287	1,294,425	60,186,267
37	Adirondack	4,013,402	4,548,211	209,883	1,445,193	10,216,689
38	International	4,127,559	4,604,900	808,015	1,927,000	11,467,474
39	Kentucky Cardinal	3,971,926	4,341,010	1,106,702	2,401,614	11,821,251
40	Mules	4,962,306	5,625,934	850,413	1,772,506	13,211,159
41	Pere Marquette	2,551,080	2,891,763	479,731	914,153	6,836,727
42	Carolinian	8,885,256	9,812,051	817,315	4,759,133	24,273,755
43	Piedmont	1,740,022	2,065,797	30,920	57,160	3,893,899
Total Corridor Trains		$ 597,775,955	$ 651,035,104	$ 73,726,525	$ 375,317,603	$ 1,697,855,187

Amtrak Long-Distance Trains
FY03 Projected Contribution/(Loss)

#	Route Name	Fully Allocated Contribution/(Loss) Excluding Depreciation and Interest (6): Net Loss	Per Passenger	Per Passenger-Mile	Fully Allocated Contribution/(Loss) (7): Net Loss	Per Passenger	Per Passenger-Mile
1	Silver Star	$ (30,105,564)	$ (119)	$ (0.170)	$ (50,420,011)	$ (200)	$ (0.285)
2	Three Rivers	(33,884,461)	(259)	(0.474)	(48,482,501)	(371)	(0.678)
3	Cardinal	(12,790,075)	(173)	(0.451)	(16,683,700)	(226)	(0.589)
4	Silver Meteor	(20,570,485)	(82)	(0.112)	(39,409,048)	(157)	(0.214)
5	Empire Builder	(45,402,187)	(128)	(0.152)	(67,404,290)	(190)	(0.226)
6	Capitol Limited	(23,497,080)	(143)	(0.262)	(32,612,486)	(198)	(0.363)
7	California Zephyr	(52,922,776)	(164)	(0.185)	(75,906,772)	(235)	(0.266)
8	Southwest Chief	(68,336,522)	(261)	(0.219)	(98,427,972)	(375)	(0.316)
9	City of New Orleans	(17,668,210)	(110)	(0.259)	(24,832,766)	(154)	(0.364)
10	Texas Eagle	(28,953,027)	(209)	(0.222)	(38,539,539)	(278)	(0.296)
11	Sunset Limited	(34,450,634)	(348)	(0.292)	(52,861,401)	(533)	(0.447)
12	Coast Starlight	(37,559,708)	(83)	(0.152)	(59,091,701)	(131)	(0.239)
13	Lake Shore Limited	(40,602,510)	(134)	(0.217)	(56,969,753)	(187)	(0.304)
14	Palmetto	(29,699,532)	(149)	(0.239)	(44,831,023)	(226)	(0.361)
15	Crescent	(32,832,089)	(134)	(0.224)	(52,324,635)	(213)	(0.358)
16	Pennsylvanian	(24,918,180)	(401)	(1.379)	(34,182,206)	(551)	(1.892)
17	Auto Train	(12,380,136)	(65)	(0.076)	(33,117,503)	(174)	(0.202)
Total Long-Distance Trains		$ (546,573,177)	$ (149)	$ (0.206)	$ (826,097,305)	$ (225)	$ (0.312)

Amtrak Corridor Trains
FY03 Projected Contribution/(Loss)

#	Route Name	Net Loss	Per Passenger	Per Passenger-Mile	Net Loss	Per Passenger	Per Passenger-Mile
18	Acela Express / Metroliner	$ 69,729,275	$ 23	$ 0.130	$ (75,186,294)	$ (25)	$ (0.141)
19	Ethan Allen Express	(2,738,198)	(76)	(0.404)	(3,576,529)	(99)	(0.527)
20	Acela Regional/NED/Vermonter	(50,011,779)	(8)	(0.050)	(216,523,888)	(36)	(0.218)
21	Twilight Shoreliner	(15,199,989)	(73)	(0.286)	(27,139,729)	(130)	(0.511)
22	Maple Leaf	(4,584,720)	(24)	(0.081)	(8,502,038)	(45)	(0.150)
23	The Downeaster	(5,120,030)	(18)	(0.191)	(7,983,746)	(28)	(0.298)
24	Clocker Service	(6,268,675)	(3)	(0.068)	(17,693,410)	(9)	(0.192)
25	Keystone Service	(17,864,745)	(20)	(0.235)	(39,606,565)	(44)	(0.521)
26	Empire Service	(35,253,064)	(35)	(0.232)	(52,501,085)	(52)	(0.345)
27	State House	(13,018,062)	(59)	(0.313)	(18,023,778)	(82)	(0.433)
28	Hiawathas	(10,963,973)	(29)	(0.348)	(14,831,328)	(39)	(0.471)
29	Wolverine	(17,609,459)	(62)	(0.286)	(24,015,314)	(84)	(0.390)
30	Illini	(1,686,817)	(19)	(0.092)	(3,727,142)	(41)	(0.203)
31	Illinois Zephyr	(2,204,111)	(24)	(0.138)	(4,183,848)	(46)	(0.262)
32	Heartland Flyer	1,386,278	28	0.185	(154,951)	(3)	(0.021)
33	Pacific Surfliner	(18,387,776)	(10)	(0.110)	(40,172,803)	(22)	(0.240)
34	Cascades	(10,381,359)	(17)	(0.119)	(14,700,748)	(25)	(0.168)
35	Capitols	(6,276,633)	(6)	(0.084)	(7,493,323)	(7)	(0.100)
36	San Joaquins	(11,026,180)	(15)	(0.096)	(12,927,893)	(18)	(0.112)
37	Adirondack	(3,286,587)	(35)	(0.116)	(4,941,662)	(53)	(0.175)
38	International	(2,074,232)	(24)	(0.111)	(4,809,247)	(56)	(0.257)
39	Kentucky Cardinal	(7,457,137)	(323)	(1.474)	(10,965,453)	(475)	(2.167)
40	Mules	(994,601)	(7)	(0.039)	(3,617,521)	(27)	(0.141)
41	Pere Marquette	(1,382,037)	(22)	(0.144)	(2,775,920)	(44)	(0.289)
42	Carolinian	(3,309,886)	(16)	(0.049)	(8,886,334)	(42)	(0.131)
43	Piedmont	(487,952)	(12)	(0.096)	(576,031)	(14)	(0.113)
Total Corridor Trains		$ (176,472,451)	$ (9)	$ (0.064)	$ (625,516,580)	$ (32)	$ (0.225)

Appendix 1

Footnotes

(1) Source: Amtrak

(2) Includes a route's allocated expenses (as determined by Amtrak's Route Profitability System) falling into those cost categories that have been determined to be at least 50% variable at the individual route level (e.g. Fuel, Train Crew Labor, Equipment maintenance).

(3) Includes all expenses allocated to the route, except depreciation and interest expense, that are not determined to be avoidable.

(4) Non-capitalizable interest expense allocated to route.

(5) Depreciation expense (matching past capital expenditures to the current accounting period) allocated to route.

(6) = Total Revenue - (Avoidable Expenses + Remaining Expenses)

(7) = Total Revenue - (Avoidable Expenses + Remaining Expenses + Non-Capitalized Interest Expense + Depreciation Expense)

Appendix 2.—Managing Amtrak's Financial Performance in FY 2003

In February 2003, the Congress passed the Omnibus Appropriations Act, which put in place tools aimed at yielding greater financial accountability at Amtrak. Past Congresses have by law directed that the Federal Railroad Administration (FRA) provide funds appropriated for the benefit of Amtrak to the corporation *without* the oversight and controls that accompany other such grants made by the Department. The Omnibus Appropriations Act for FY 2003 provides for oversight with teeth, placing the relationship between DOT and Amtrak on a footing similar to the oversight DOT exercises with respect to other transportation modes.

The Omnibus Appropriations Act provided a total of $1.043 billion in funds for Amtrak in FY 2003. The law directed the Secretary of Transportation to disburse Amtrak's appropriated funds in quarterly grants. Amtrak is to receive a total of $519 million for operating expenses, $293 million for capital expenses along the Northeast Corridor Mainline, and $231 million for general capital improvements.

For the first time, however, the law gives the Secretary both the responsibility and the authority to review and approve Amtrak's requests for funding. Amtrak must provide a detailed financial analysis and revenue projections for each of its long distance train routes. We have gone further and obtained this data for all routes. Additionally, the law requires Amtrak to provide the Secretary with a detailed business plan for the entire fiscal year, explaining how it will live within its appropriation.

I am pleased to report that on April 9, 2003, the Department approved Amtrak's business plan for the remainder of FY 2003 and executed the Amtrak grant agreements contemplated by the Omnibus Appropriations Act. In doing so, DOT unambiguously communicated to Amtrak and its Board the following requirements: this year there will be no Federal loans or loan guarantees, no "creative financing" by Amtrak, no gimmicks, no shutdown drama, no threat against commuter operations, and no kidding—Amtrak will live within the budget that Congress appropriated. Any financial upside must be allocated to bolster what will be an anemic year-end cash reserve. Any revenue loss or additional expense must be offset within budget by requiring Amtrak's management to make decisions about which expenses to cut or which capital projects to defer.

We have read the law, and listened carefully to those Members who have spoken on the new Amtrak appropriation language, and this is what we understand Congress wants. DOT wants the same. To that end, we will monitor Amtrak's condition monthly, and will be working with Amtrak to help it meet the targets laid out in its business plan. DOT will provide monthly reports to Congress on Amtrak's progress. We expect to provide Amtrak's fourth quarter grant in early July, but if necessary at that point we can gate disbursements on a monthly basis to ensure fidelity to the bottom line of Amtrak's business plan. Let me be clear about DOT's role under the law. Amtrak itself retains its daily management responsibilities; DOT will provide oversight and enforce accountability.

Of course, no plan is perfect, and we fully expect that Amtrak may need to make minor adjustments along the way. While we think the business plan is flexible enough to withstand normal business-related fluctuations in revenue and expenses, in these times it certainly does not accommodate the effects of any catastrophic terrorist events. At this time, the Department is not aware of any such credible and specific threat regarding Amtrak. Barring such an event, we believe it is possible that, with Amtrak's cooperation, we can accomplish the objectives you set out in the law.

The following provides more detail about part of this year's Amtrak grant process.

The Omnibus Appropriations Act for FY 2003. Amtrak's appropriation, $1.043 billion, is divided into the three categories shown in Table 1. Acting through the Federal Railroad Administration (FRA), the Department had already transferred to Amtrak thus far in FY 2003 just over $407 million in funds that were appropriated under a series of FY 2003 continuing resolutions. Amtrak has allocated those funds to operations, capital expenses along the Northeast Corridor Mainline and for general capital expenses. Those funds must be credited against grant amounts specified in the Act to compute the net amounts remaining to be obligated this year. That calculation is shown below.

Table 1.—Amtrak's FY 2003 Appropriation

Purpose	Total FY 03 Appropriation	Funding Provided Through CRs	Net Grant
Operations	$518,607,000	$256,494,000	$262,113,000
NE Corridor Capital	293,082,500	73,285,000	219,797,500
General Capital	231,485,500	77,355,000	154,130,500
Total	1,043,175,000	407,134,000	636,041,000

As mentioned previously, the Omnibus Appropriations Act for FY 2003 also established a number of specific requirements, in addition to those normally associated with the making of a DOT grant. Following preliminary staff discussions with Amtrak, the Department began to implement the statutory requirements with a letter from FRA Administrator Allan Rutter to Amtrak dated March 10, 2003, specifying how we interpreted the new law and detailing the financial and operating information we would expect to receive from Amtrak. On March 14, 2003, Amtrak submitted its initial Grant Application, which included its proposed business plan.

FRA staff reviewed the specifics of this plan with Amtrak in several meetings, both in Washington and in Philadelphia. After these meetings, Amtrak submitted to FRA a revised grant application and business plan on March 27, which was subsequently modified slightly and approved by Amtrak's Board. This revised business plan has been reviewed by FRA staff as well as staff of the Department's Office of Inspector General, Office of General Counsel, and Office of Budget and Programs.

DOT will shortly compile and deliver to this committee a full package containing the approved Amtrak business plan, the approved grant agreements, associated documentation and required certifications by Amtrak and the Secretary of Transportation.

Amtrak's FY 2003 Business Plan. Amtrak's business plan provides Amtrak's estimates of the revenue and expenses related to its operations during FY 2003 and the assumptions on which the estimates are based. The business plan also provides a project-by-project description of Amtrak's planned FY 2003 capital program, with a description of each project's goal, the work to be accomplished with FY 2003 funding, schedules and cost estimates.

Compared to Amtrak's initial FY 2003 budget, the current business plan reflects more conservative assumptions of revenue, lower capital expenditures, and, most importantly, a contingency fund. Under this business plan, Amtrak forecasts cash operating expenses (including interest expense but excluding depreciation and other post-retirement benefits) of $2.875 billion, of which a portion would be funded by the Federal grants provided under the Act. The plan also details the application of the funds designated in the Act to be expended on capital projects meeting the Generally Accepted Accounting Principles (GAAP) definition of capital. Finally the plan provides for unforeseen contingencies by identifying projects that could be deferred if necessary to conserve funds.

Long Distance Trains. The Omnibus Appropriations Act for FY 2003 requires that the Secretary shall approve funding to cover operating losses on Amtrak's long distance trains only after receiving and reviewing grant requests for each specific long distance train route, and that each such grant request must be accompanied by a detailed financial analysis and revenue projection justifying Federal support. As mentioned above, we required such data for all routes and the core data are aggregated in Appendix 1.

In approving third quarter funding for the current system of long distance trains, the Department did not endorse, either explicitly or implicitly, the notion that any particular route is necessary or should be preserved for the long term. We believe that subject should be assessed more comprehensively in the coming Amtrak authorization process. For now, it should be pointed out that the current Amtrak route structure is largely an historical artifact left over from the operating decisions made by individual private railroad lines long before Amtrak existed. We believe that some of those business decisions of well more than 30 years ago may no longer be relevant or sustainable, and that decisions on service levels should be made in the context of a comprehensive strategy for the future of passenger rail service in this country.

Reserve for Commuter and State-Contracted Service. The Omnibus Appropriations Act for FY 2003 requires that the Secretary and the Amtrak Board of Directors shall ensure that sufficient funds are reserved to satisfy Amtrak's contractual obligations for commuter and intercity passenger rail service. We have interpreted that requirement as a direction from Congress that, in the event of budget shortfalls,

Amtrak's commuter and state-supported operations take precedence over providing other service. We understand that this provision was included specifically to prevent Amtrak from threatening a shutdown of commuter and state-supported services, as it did last year.

In the short term, we have determined that the best means to assure that Amtrak continues to provide these services is to see that Amtrak has sufficient funds to operate through the end of the fiscal year. To that end, we have requested and received from Amtrak a commitment to achieve monthly cash balance requirements that should assure sufficient liquidity to the end of the fiscal year. If business plan targets are not met, however, Amtrak has formally certified that it is responsible to devise and implement alternate actions that will meet these requirements. There is little margin for error in the months ahead for Amtrak and its cash balance at the beginning of the next fiscal year will be low.

Reporting. The Omnibus Appropriations Act provides that no later than June 1, 2003, and each month thereafter, Amtrak shall submit to the Secretary of Transportation and the House and Senate Committees on Appropriations a supplemental report regarding the business plan, which shall describe the work completed to date, any changes to the business plan, and the reasons for such changes. We have implemented that requirement in the grant agreements by providing that Amtrak will report its actual results in comparison with the revised business plan on a monthly basis to FRA, using standard reporting templates that FRA requires for all other recipients of Federal funds.

The grant agreements also provide that Amtrak will notify FRA as soon as it becomes aware of significant variances from the business plan for long distance trains, other operating expenses, and various capital expenses. Amtrak must obtain FRA's prior written approval to exceed the approved budget for individual projects, and will be required to provide detailed justification for proposed revisions, identify the implications of non-approval on operations, and identify a funding source for the proposed change.

The CHAIRMAN. Thank you very much.

Mr. Mead?

STATEMENT OF HON. KENNETH M. MEAD, INSPECTOR GENERAL, DEPARTMENT OF TRANSPORTATION

Mr. MEAD. Yes, thank you, Mr. Chairman.

The subject of today's hearing is the future of intercity passenger rail service and Amtrak. In the past, I think these futures have been intertwined to the point of being one and the same. I hope that this discussion this year does not get bogged down in, or defined as, simply what to do about Amtrak. That has not been a fruitful focus in the past. And I'm taking you all the way back to Graham Claytor, the president of Amtrak, Tom Downs, President of Amtrak, President Warrington, and now Mr. Gunn.

I think everyone will be better served by focusing on what we want passenger rail service in this country to be, how we are going to produce it and govern it, and how we are going to fund it. Over the last year, it has been my view that Amtrak's president, Mr. Gunn, Secretary Mineta, and the gentleman to my right here, have really worked diligently to improve cost controls and achieve expense savings at Amtrak, and they've brought more order to its accounting and financial statements.

But let's not make any mistake about it. These are positive steps, but they are not going to solve the fundamental problem. The fundamental problem here is that the current Amtrak model is broken, and pinching pennies alone is not going to make this model work. You are not going to be able to save your way out of the Amtrak issue. What intercity rail needs to be is, first and foremost, not what it is today. It's the overall approach to designing, governing, and funding this system, and the outcome of that process,

that's broken and must be addressed in the reauthorization. The status quo pleases no one. It's going to require significant increases in funding just to maintain the status quo, and it will not meet the mobility needs of the country in the years ahead.

Well, what is the status quo? Well, it's a system that limps along, never in a state of good repair, and perpetually one, two, or three steps from the edge of collapse. In the end, Amtrak, in effect, has been tasked to be all things to all people, and it's insufficiently funded to be satisfactory to anyone.

I've been testifying on Amtrak matters for almost 10 years, 5 of them at GAO, 5 of them at the Department, and it seems to me that some years you could almost just change the date on the prepared statement and the message would essentially be the same. This year, I think we're on the brink of doing something different. Why? Because for the last 2 years, we've come within days of the collapse of the entire railroad.

The result we have today, though, is a system that's nearly $5 billion in debt. I have some slides—I think you have some slides in front of you. It has a cover like this. The slide shows the overall debt of about $5 billion. And it shows, also, that the debt service on it is going to consume about $250 million. That's over 25 percent of the budget request for Amtrak.

This is a system, also, that, except for a handful of routes, continues to suffer operating losses on all services offered. In fact, the fully allocated losses on some trains, including depreciation and interest, comes very close to $500 per passenger. And in 2001 and 2002, Amtrak experienced its highest operating losses ever, of more than $1 billion. And you can see that depicted on this chart, too.

And despite incurring record levels of debt since 1997, which is when they started on the glide path, and also how an illusion was created that the glide path was being met, that we were on track, the way that was done was they borrowed against assets and borrowed money. And that way it looked as though you're on a glide path. Until the end, there was nothing really left to mortgage.

Well, despite all this, the system needs about $6 billion to address the backlog of state-of-good-repair investments. And I stress backlog, because backlog refers to bringing things that we already have into a state of good repair, not for improvements.

The news is not all bad, though. Slide number 3 shows systemwide ridership and revenue have been on an upward trend over the last 5 years, reaching record levels in the last 2 years. Both the Northeast Corridor and the Amtrak West ridership increased about 24 percent between 1997 and 2002. Intercity ridership has remained essentially flat.

OK, so enough on the numbers and what the status quo is and so forth. What do we want passenger rail to be? I've gone back and we've tried to reflect on what's needed to—what do we need to do to passenger rail if we are to avoid status quo outcomes? Well, if you're going to avoid status quo outcomes, Amtrak's going to require, if it remains as it's currently structured, about $2 billion per year. I think that's a fairly good working number. And that $2 billion a year is going to go to operating and capital subsidies for the foreseeable future for just what you have now.

The CHAIRMAN. And that's not counting what would be required as far as replacement of existing equipment, is that correct?

Mr. MEAD. Yes, sir.

Now, for the last 4 or 5 years of that glide path, people were talking about trying to get that number of $500 or $600 million that they were giving them down to $200 million. So you can see, this $2 billion figure is considerably more, by several magnitudes.

I think change is needed. Otherwise, we're going to continue to see a continuation of too much system for too little capital investment. I think for the $2 billion that would need to be spent on a steady-state Amtrak system, a refocused Federal program could provide significantly better service to a greater number of passengers. I think we can get more bang for the buck. First, though, let me deal with two other approaches that we have heard. I know they're on the table.

One is to end completely the Federal role in intercity passenger rail service and leave all service decisions, all funding, to the states. That may be appealing, from a Federal budgetary standpoint, but it ignores the mobility needs of congested regions of the country, and it places far too great a burden on already strapped State budgets.

Another option is to reduce the demand on Federal funds by eliminating all the long-distance trains. There is a myth here. The elimination of all these long-distance trains might eventually save you about $300 million or more. That's after you get to the labor protection and all that. It doesn't come close, though, to solving the $2 billion problem, and it ignores the fact that operations outside the Northeast Corridor have been the glue that has held the system together by a frayed shoestring. And it is that glue that has been responsible for pumping millions of dollars into that Northeast Corridor.

I think a better option for the future of intercity passenger rail service would have the following attributes. Federal capital grants, both to the states and the Northeast Corridor. Improved mobility in short-distance corridors through higher-speed and higher-frequency service. I think these long-distance trains could be redesigned as feeder services that would connect on a once-a-day or more-frequent basis to the endpoints of the corridors. But in between, you would have more frequent service.

I think the states need to decide on service attributes and select the operator. That could very well be Amtrak, but for the time being, though, I think it would be disruptive and too complicated to say Amtrak should not have responsibility for the Northeast Corridor.

For the successful development of higher-speed, higher-frequency, short-distance corridors, there's going to have to be a strong partnership between the Federal Government and the states, and you're going to need a multi-year transition period that's going to be necessary to develop the institutional arrangements to pull that off.

Fundamentally, the states would be given more control and authority. They would not be obliged to look automatically at Amtrak to make all the calls as they are now. You also would need a secure Federal funding source so you don't go from year to year, and 1

year they say, “Well, here’s some money”; the next year, they say, “We’re not giving you any money.” You need something that’s stable and continuous. Another thing we would do is, we would freeze and amortize Amtrak’s long-term debt.

Amtrak requires both operating and capital subsidies that are greater than its debt, principal, and interest payments. We are—the Federal Government, that is—in effect, we are paying the subsidies; and, in turn, we’re paying the interest and principal on this debt. And we have the incongruous situation today where a government that can borrow money at 4 percent for 10 years is paying 7 percent or more on Amtrak debt of the same or lesser duration. Penn Station, the mortgage that was taken out there, I think that’s around 9 percent. Because we’re going to pay for that debt anyway, the Federal Government ought to retire that debt, where it’s economic to do so, in one lump sum appropriation, and clear the decks of this debt.

You’ve heard of the RRTA, which is the excess Railroad Retirement Tax Act payments. There has been a continuing dispute over who should pay those and in what amounts. I think that ought to be funded through a direct appropriation to the Railroad Retirement Board and be done with it.

The CHAIRMAN. How much is that?

Mr. MEAD. I think that’s about $160 to $200 million a year.

The CHAIRMAN. Per year, forever.

Mr. MEAD. Yes, sir.

So it just seems to me that we are at a point with intercity passenger rail where we’re going to have to make some decisions or we’re going to be spending summer after summer after summer going through Amtrak, a collapse of Amtrak.

That concludes my oral statement, sir.

[The prepared statement of Mr. Mead follows:]

PREPARED STATEMENT OF HON. KENNETH M. MEAD, INSPECTOR GENERAL, DEPARTMENT OF TRANSPORTATION

Mr. Chairman, Senator Hollings, and members of the Committee:

Thank you for inviting us here today to discuss the Future of Intercity Passenger Rail Service and Amtrak. In the past, those futures have been intertwined to the point of being one and the same. Going forward, that may no longer be the case. We hope that the policy debate concerning the future of passenger rail does not get bogged down in or defined as “What to do about Amtrak”. That has not been a fruitful focus in the past and all parties, the public, the Congress, and the Administration, will be better served by focusing on what we want intercity passenger rail service in this country to be, how we are going to produce and govern it, and how we are going to fund it. With those decisions in hand, the role that Amtrak can play in that future will be more readily apparent.

Over the last year, Amtrak’s president and the Department have worked diligently to improve cost control and achieve expense savings at Amtrak and have brought more order to its accounting and financial statements. These efforts need to continue. In addition, the Department has been given more authority to oversee and control Amtrak’s adherence to its budget, ensuring that it operates within the Federal funding provided.

Although these are positive steps, they are not going to solve the fundamental problem: the current Amtrak model is broken and pinching pennies alone won’t make this model work. What intercity rail needs to be is, first and foremost, not what it is today. By that we are not singling out any particular aspect of the current system. It is the overall approach to designing, governing, and funding the system and the outcome of that process that is broken and must be addressed in reauthorization. The problems extend beyond funding to questions of who makes the decisions about and who controls the provision of service, including commuter services.

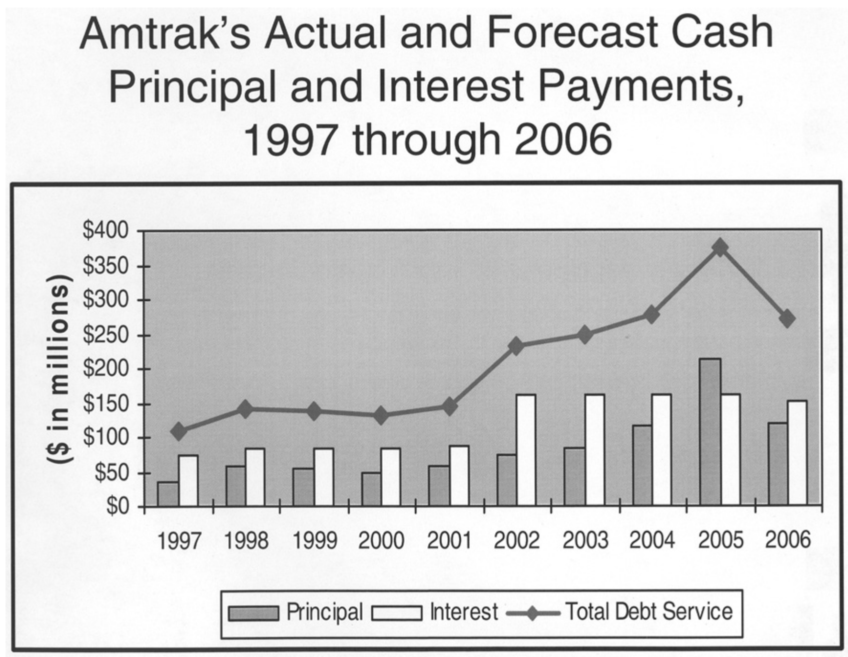
The status quo pleases no one; it will require significant increases in funding just to maintain it; and it will not meet the mobility needs of this country in the years ahead.

What is the Status Quo?

Despite multiple efforts over the years to change Amtrak's goals, its structure, and its funding, the result always seems to be a status quo that is the product of inevitable budgetary compromises. These compromises over the years have produced a system that limps along, never in a state of good repair, and perpetually one, two, or three steps from the edge of collapse. These dire straits have been repeated time and again over Amtrak's history. In the end, Amtrak has been tasked to be all things to all people, but insufficiently funded to be fully anything to anyone.

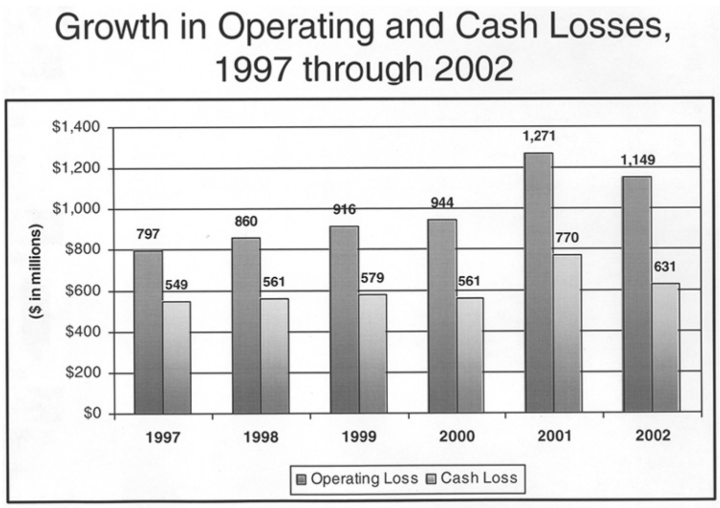
The result today is a system that is awash in debt, nearly $5 billion worth, and which will consume more than $250 million in annual Federal funding merely to service that debt.

Figure 1



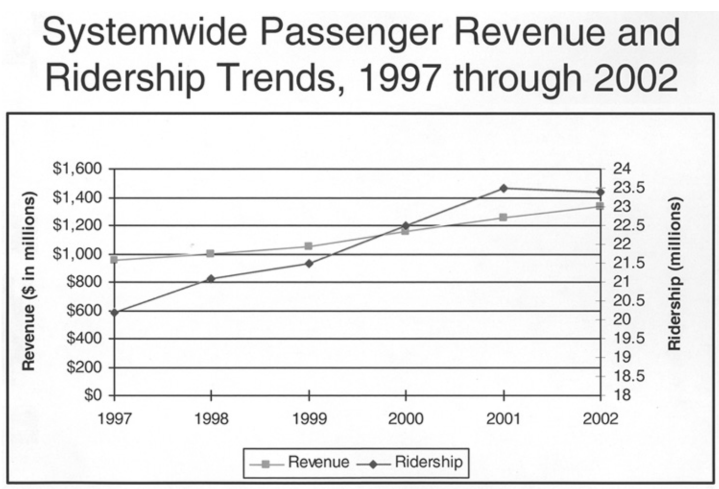
It is a system with a backlog of state-of-good-repair investments that has reached at least $6 billion. Finally, this is a system that, except for a handful of routes, continues to suffer operating losses on all services offered. In fact, the fully allocated losses on some trains (including depreciation and interest) can exceed $500 per passenger. For the company as a whole, cash operating losses have averaged $600 million for the last 6 years and are estimated to range between $700 million and $800 million over the next 5 years.

Figure 2



But the news is not all bad. Over the last few years, in spite of manufacturing delays and some early operational problems, the Acela Express trainsets have been introduced to general acclaim and have affirmed and improved Amtrak's position as the leading carrier (rail and air) in the Northeast Corridor (NEC). In fact, systemwide ridership and revenue have been on an upward trend over the last 5 years, with record passenger revenue and ridership levels in the last 2 years. Both NEC and Amtrak West ridership increased 24 percent between 1997 and 2002. However, during this same period, Intercity ridership has remained essentially flat.[1]

Figure 3



In addition, Amtrak has aggressively pursued other sources of revenue that are complementary to the provision of passenger service. These include mail and express service, operation of commuter services, maintenance services for other railroads, and rental income for use of its infrastructure. These non-passenger revenues

[1] Intercity trains are all corridor and long-distance trains that operate outside the NEC and the West Coast.

have generally been increasing as a percentage of total revenue and were about 41 percent of operating revenue in 2002.

Going forward, if we are to avoid status quo outcomes in which capital funding is continually starved, Amtrak would require, if it remains as currently structured, close to $2 billion per year in operating and capital subsidies for the foreseeable future. Amtrak will likely require about $750 million per year in cash operating subsidies. This consists of about $350 million for the operating self-sufficiency gap that has persisted for the last several years and the approximate annual costs associated with interest expense ($160 million), excess Railroad Retirement Tax Act payments ($160 million) and progressive overhauls ($80 million).[2]

To this $750 million, add about $750 million that is required for a general capital program needed to maintain the current system just in its current state. Finally, another $500 million could and would likely need to be spent to begin addressing the system's backlog of capital investment, about two-thirds of which is in the NEC.

But the current Amtrak system has never generated the necessary political support to fully fund its operating and capital needs, and it is not clear that it can do so in the future. Change is needed. If not, what we are likely to see is the ugly status quo of too much system for too little capital investment.

So, if the status quo isn't working and is unlikely to be satisfactory over the next few years, what are our options? Where should we go with intercity passenger rail service?

What Do We Want Passenger Rail To Be?

Clearly, one possible approach is to end completely the Federal role in intercity passenger rail services and leave all service decisions and 100 percent of the funding to the states. While this approach may seem appealing from a Federal budgetary standpoint, especially with large deficits looming, it ignores the mobility needs of certain congested regions of the country and the benefits that passenger rail may provide. Although these problems exist on local and regional levels, there is a national economic interest in assisting mobility that is the foundation for the Department's transit, highway, and aviation programs.

Another option is to reduce the demand on Federal funds by eliminating all long-distance trains. Although this might eventually save $300 million or more (after labor protection and other shut-down costs are amortized), it does not come close to solving the $2 billion funding dilemma. Furthermore, in the past, the long- distance trains have been the political glue that has held together support for intercity passenger rail and Amtrak. Elimination of these trains, without a clear plan for improving mobility through a restructured Federal program, would likely lead to a continuation of a status quo, limp-along Amtrak.

A System Based on Restructured Federal/State/Private Roles and Focused on Corridor Services

A better option for the future of intercity passenger rail service lies in improving mobility in short-distance corridors around the country (not just in the NEC), and in restructuring long-distance services to complement these corridor services. It is in short-distance corridors that the Federal Government and the states should focus their investments to increase speeds, increase frequency, and improve the quality of the services offered. For the $2 billion that would need to be spent on a steady-state Amtrak system, significantly better service to a greater number of passengers is possible through a refocused Federal program that gives the states more control and authority.

Partnerships Among States and the Federal Government. For the successful development of higher speed/higher frequency, short-distance corridors, there must be a new relationship established between the Federal Government and the states. An option is a transition to a Federal passenger rail program that is modeled more on the current transit program. This transition would likely require a number of years for institutional arrangements to be developed among the states (such as multi-state compacts) and for funding arrangements to be completed.

This approach would involve Federal capital grants to the states for investment in short-distance corridors where states would have a more defined and consistent role in determining what services are provided and by whom. The states might choose to contract with Amtrak to operate these services or seek bids from alternative operators. States would also decide on the service attributes such as speed, frequency, and quality.

The NEC is the only corridor that involves more than three states (nine states). Thus, it will be a challenge to develop a workable governance, operating, and fund-

[2] Progressive overhauls are annual overhaul costs that are expensed rather than capitalized.

ing structure. This is likely to be the case whether this structure is a redefined Amtrak, a Federal/State Compact, or some other form of organization. If the resulting organization separates the control of operations from that of infrastructure, we caution that the recent experience in Great Britain underscores the dangers associated with establishing a commercial, for-profit entity to operate the infrastructure. Allowing an infrastructure company to operate "like a business" may mean relinquishing control over how certain expenses are cut or which capital investments are made. An infrastructure company that is focused on its bottom line may make decisions that are in its best interest financially, but they may affect the safety or efficiency of rail service operations.

States would also take the lead in engaging the freight railroads in the funding and operations of these corridors. The majority of these corridor services will operate over the track of privately owned freight railroads and, therefore, any partnerships must include the freight rail owners. Productive relationships and dispute resolution mechanisms need to be forged that assure cooperation in improving the track infrastructure and timely operation of the improved corridors.

With control comes funding responsibilities and the states should be expected to provide capital funds to match in some proportion the Federal grants. Ultimately, these corridors should be self-sufficient from an operating (not necessarily capital) standpoint, either through farebox collections or through state and local subsidy. Operating losses might initially be shared as they are now between the Federal Government and the states. Currently, states provide about $138 million in operating support to Amtrak for corridor trains and provide capital funds on a project-by-project basis.

Secure Federal Funding Sources. The Federal quid pro quo to a stepped-up state funding role in passenger rail services should be the elimination of the "Perils of Pauline" approach to Federal funding. Investments in corridor development can proceed most efficiently where long-term decisions and multi-year investments can be made without the threat of a shut-down in Federal funding. A secure Federal funding source will likely be needed to cement this new Federal-State partnership.

Redesign Long-Distance Trains to Complement Corridor Services and Minimize Operating Losses. The current long-distance services should transition to a role of complementing corridor services. This restructuring can take a number of forms, from the combination of parallel or overlapping services to the elimination of endpoint service on routes. For example, on some long-distance trains today, significantly fewer than half of the passengers travel the entire route from endpoint to endpoint. These trains could be redesigned as feeder services that would connect on a once-a-day or more frequent basis to the endpoints of corridors. By operating in the gaps between corridors, but not overlapping them, these feeder services could continue to provide services to coach passengers currently served by the long-distance trains and do so on more convenient, daytime schedules. This restructuring can be accomplished over a period of years that would minimize transition costs and would allow for the growth of the complementary corridor services.

The alternative of simply shifting the responsibility for subsidizing the operating losses on long-distance routes to the states could encounter problems from states in the middle of the route that choose not to contribute. Restructuring long-distance trains into a feeder service that connects to the higher speed/higher frequency corridor services would solve this problem. Because most of the feeder routes would lie in either one or two states, any decision by the states not to subsidize and, therefore, not to operate the service would reflect the perceived lack of benefits to their citizens.

Freeze and Amortize Amtrak's Long-term Debt. Because Amtrak requires both operating and capital subsidies greater than its debt principal and interest payments, these obligations are, in effect, funded by Federal subsidies. This creates the incongruous situation in which a government that can borrow at 4 percent for 10 years is paying 7 percent or more on Amtrak debt of the same or lesser duration.[3] Because all current and future (if it were permitted) Amtrak debt would likely be paid by the Federal Government, Amtrak's ability to incur long-term debt should be permanently frozen, and all debt that can be economically amortized immediately should be funded in a one-time appropriation. This will minimize the cost to the taxpayers of these outstanding liabilities.

Direct Appropriation to the Railroad Retirement Board of Excess RRTA. To simplify and clarify future funding of passenger rail services, any portion of future retirement tax payments for passenger rail providers that would qualify today as excess Railroad Retirement Tax Act payments should be funded through a direct ap-

[3] Amtrak pays more for its debt because its default risk is greater than that of the Federal Government.

propriation to the Railroad Retirement Board. This will establish and maintain a level playing field for all competitors to provide corridor services.

Amtrak's Operating and Financial Performance Since 1997

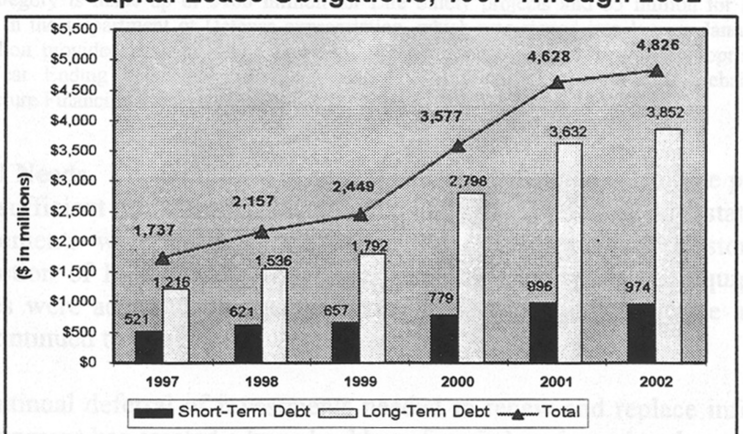
Today, Amtrak provides intercity passenger rail service over a network of more than 22,000 route miles and serves more than 500 stations in 46 states. It owns about 730 route miles between Boston, Massachusetts, and Washington, D.C., and in the state of Michigan. In other parts of the country, Amtrak operates over track owned by freight railroads. Many of Amtrak's routes are corridor operations that run through a maximum of three states [4] and are generally about 100 to 500 miles in length. Amtrak also operates 17 long-distance trains that traverse multiple states, include sleeper and dining car service, and travel more than 750 miles.

Operating Needs. Since receiving in December 1997 [5] its mandate to achieve operating self-sufficiency by December 2002, Amtrak has improved passenger revenues and ridership, up about 39 percent and 16 percent, respectively. However, expense growth has more than kept pace. Consequently, Amtrak's operating and cash losses have increased and Amtrak is farther from operating self-sufficiency now than it was in 1997. Amtrak recorded an operating loss of $1.15 billion for 2002,[6] $352 million more than in 1997. Amtrak's cash loss for 2002 was $631 million, $82 million more than in 1997. (See Figures 2 and 3.)

To cover the gap between its operating losses and Federal and State funding, thereby creating the appearance of meeting its "glidepath," Amtrak incurred debt and sold assets. For example, in 2000, Amtrak entered into four separate sale and leaseback transactions for which it received $124 million in cash and $791 million in interest-earning set-aside deposits to be applied against the lease obligations. In June 2001, Amtrak mortgaged a substantial portion of improvements located at Penn Station in New York for cash proceeds of nearly $300 million. In 2002, Amtrak received a $100 million loan for general capital purposes from the Department of Transportation as well as $205 million through supplemental appropriations.

As a consequence of Amtrak's external financing of its cash losses as well as new train equipment and related maintenance facilities, total debt and capital lease obligations increased by $3.1 billion, from $1.7 billion in 1997 to $4.8 billion in 2002, representing an overall increase of 178 percent (see Figure 4).

Figure 4. Growth in Amtrak's Short- and Long-Term Debt and Capital Lease Obligations, 1997 Through 2002



Note: Amtrak's Consolidated Balance Sheet also lists Other Liabilities and Deferred Credits such as casualty and environmental reserves, as well as post-retirement employee benefits obligations, totaling an additional $1.2 billion.

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[4] The Acela Express/Metroliner and Acela Regional are the only routes characterized as corridors that have stops in more than three states. Acela Express/Metroliner stops in nine states and the Regional stops in six states.

[5] Amtrak Reform and Accountability Act (ARAA).

[6] Based on Amtrak's Audited FY 2002 Consolidated Financial Statements.

Amtrak's annual debt service during this same period grew from $111 million to $233 million. For FY 2004, Amtrak projects its debt service payments will increase to $278 million. It is also important to note that Amtrak's heavy debt load was acquired during a period when Amtrak received Federal operating and capital grants, as well as other Federal assistance totaling $5.27 billion, or more than $1 billion annually (see Table 1).

Table 1. Sources and Amounts of Federal Support to Amtrak 1998 Through 2002 ($ in millions)

Sources	1998	1999	2000	2001	2002	Total
Taxpayer Relief Act	$1,092	$1,092	$0	$0	$0	$2,184
NECIP[1]	250	0	0	0	0	250
General Capital	0	609	571	521	521	2,222
Operating	202	0	0	0	0	202
Other[2]	0	0	0	0	410	410
Total Funding	**$1,544**	**$1,701**	**$571**	**$521**	**$931**	**$5,268**

[1] Northeast Corridor Investment Program.

[2] This category is made up of $100 million for Life Safety projects and $5 million for security costs included in the Department of Defense appropriation, which was signed into law on January 10, 2002; $205 million provided through Public Law No. 107-206, Making Supplemental Appropriations for the Fiscal Year Ending September 30, 2002; and $100 million for the Railroad Rehabilitation and Infrastructure Financing Program (RRIF) loan provided by DOT, June 28, 2002.

Capital Needs. The $1 billion in annual Federal assistance during the past 5 years was insufficient for Amtrak to maintain its system in a steady state. While improvements were made to the north end (New Haven to Boston) for the introduction of high-speed rail service, and new high-speed rail equipment and facilities were acquired, the general state of Amtrak's infrastructure and rolling stock continued to deteriorate.

The continual deferral of investments needed to renew and replace infrastructure and equipment has created a huge backlog of capital projects that threatens current and future service reliability. In the Northeast Corridor, Amtrak provides service over bridges, through tunnels, and on electric traction systems that are well past their useful lives and consequently more expensive to maintain. The high-speed, high-density, and mix of diverse users (Amtrak, commuter, and freight) in this operating environment magnifies all types of problems, especially those related to infrastructure. Amtrak expects that these problems will continue to grow and eventually require reductions in service and speed if not soon addressed.

Based on our assessments of Amtrak's financial performance and requirements over the past 5 years, Amtrak needs approximately $750 million annually for a basic capital program that will maintain its assets in the current state. However, this amount will not address the deferred capital investment needs. If the decision were made to keep the current structure, we estimate Amtrak would need to spend about $500 million annually for an extended period (perhaps as long as 15 years) on infrastructure and rolling stock to eliminate the backlog of capital investment.

The length of time and, therefore, total investment are somewhat indefinite because key decisions need to be made on whether major assets will be refurbished, overhauled, or completely replaced. For example, do we completely rebuild or replace bridges and tunnels, such as the Baltimore tunnels, or do we merely refurbish components and perform moderate upgrades to extend their useful lives for several more years? Should we repair selected components of the catenary system from Washington to New York or should it be replaced in its entirety?

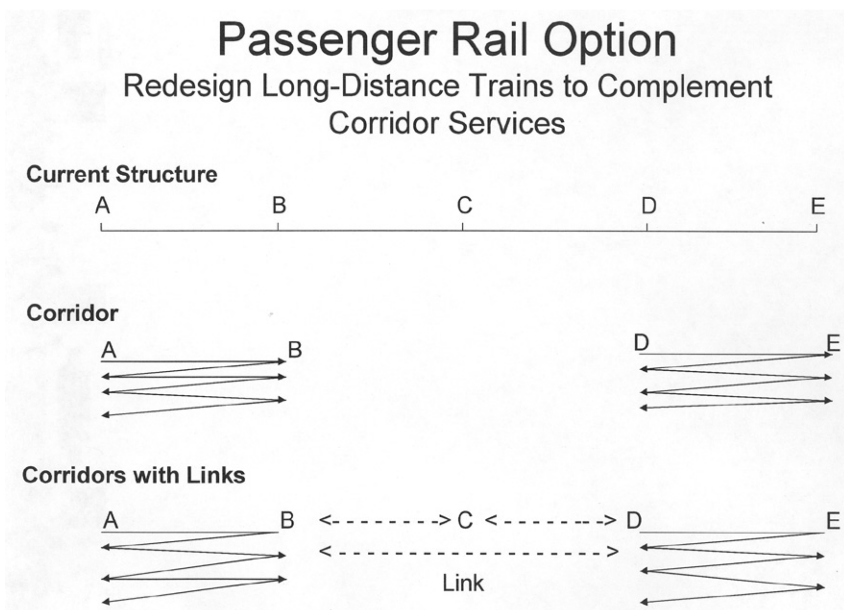
The total magnitude of capital needs will be in the billions of dollars depending on the future vision regarding desired capacity, reliability, and trip times in the corridor. One thing we know for sure is that without major reinvestment, Amtrak or an alternative operator will experience significant negative effects on its operations, although neither we nor they can predict with any certainty the timing or severity of the breakdown.

Amtrak's Financial Performance in 2003. We are encouraged by improvements David Gunn has made since his appointment as President and Chief Executive Officer of Amtrak, such as management streamlining and workforce reductions in the

hundreds, and a willingness to provide more comprehensive operating and financial information to DOT and Congress. However, positive operating and financial results for 2003 remain elusive in a difficult travel environment due to the war in Iraq and heightened terrorism alerts at home. Systemwide ridership decreased a little less than one percent during the first 6 months of 2003 from 11.5 million to 11.4 million. Some of the additional contributing factors were a slower than expected economic recovery and poor on-time performance.

Amtrak's overall operating revenues decreased $117 million while expenses remained flat for the first 6 months of 2003 compared to the first 6 months of 2002. This resulted in an operating loss of $666 million, an increase of $120 million over the 2002 operating loss of $546 million for the same time period. Amtrak's cash loss for the first 6 months of 2003 was nearly $374 million, an increase of about $64 million over its cash loss of $309 million in 2002. We note that Amtrak's 2003 approved budget included a forecast cash loss of about $355 million, which means it is off budget by about $19 million. Thus, despite the fact that events outside Amtrak's control, such as the war in Iraq and the slump in business travel, negatively affected passenger revenues, strong oversight by the Department and Amtrak's close control of operating expenditures this year has enabled it to stay relatively close to its budget.

Amtrak's current authorization has expired and many questions remain about the future of intercity passenger rail in the United States. The question of what kind of system is best for the country is inextricably intertwined with the question of how much the country is willing to pay for such a system.



Mr. Chairman, this concludes our statement. I would be pleased to answer any questions.

The CHAIRMAN. Thank you for that upbeat assessment, Mr. Mead.

[Laughter.]

The CHAIRMAN. Mr. Gunn, welcome.

STATEMENT OF DAVID L. GUNN, PRESIDENT AND CEO, AMTRAK

Mr. GUNN. Thank you. After that performance, Nova Scotia looks very good.

[Laughter.]

Mr. GUNN. Chairman McCain and Ranking Member Hollings and other members of the Committee, I want to thank you for the opportunity to appear here today.

Obviously, my perspective on Amtrak is different than my two colleagues on my right. I tend to view it from the ballast level; they tend to view it from 20,000, 30,000 feet. And so my perspective is quite different.

And, when I got here on May 15—and, by the way, I have written testimony, which I'll submit to the record and I won't bother reading it, I'll just make a few comments and then we can get on with discussion.

When I arrived here on May 15 of last year, Amtrak—it became obvious to me that the company was in serious trouble, and we actually faced insolvency. And the physical plant and equipment was in very poor condition. But on top of that, there were some serious managerial problems. The organization was poorly defined, and it was top heavy, and it was not focused on the day-to-day running of the railroad.

So the immediate goal that we had last summer was, first of all, solvency for Amtrak. I mean, we were faced with a fiscal crisis, a real one. But the other problem was to get ready for the future and to put in place the financial controls and the budgeting systems that would allow us to begin to manage Amtrak. And we set a goal for ourselves, during that period of time, to have in place, by October 1, a zero-based budget and what I call a "functional organization," which is—"functional" means, by "function," like transportation, mechanical engineering—with which to manage the corporation.

Now, we did that. And, so far, the results are—I don't want to say encouraging. "Encouraging" and "Amtrak" don't go together, perhaps. But, actually, expenses in 2002, we finished 2002 with lower expenses than the prior year, and we'll finish 2003 with lower expenses than 2002. And we've also, within the funding that we've been given, we've started rebuilding wrecked and damaged cars, out-of-service cars. We should have about 15 back in service by May. We will have—our track-laying system train will be back in service next month. So, basically, we think we've been able to make a modest shift of resources into the process of trying to restore the physical plant and the equipment for Amtrak.

And, in terms of financial controls, we closed our books for 2002 6 months earlier than last year, which we think is a major accomplishment, and we now furnish our board with income statements, balance sheets, according to GAAP, every month, about 3 weeks after the close of the prior month. So we've made some progress.

Thanks to those of you on the Committee, a number of you, particularly Senator McCain and Senator Hollings, they advocated that we put together some sort of a 5-year plan to give you a sense of where we're going. We have done that. We've prepared a very detailed analysis of what it takes to restore the existing system, both Northeast Corridor and long-distance trains, the national system, back to a state of good repair. It's a very practical, pragmatic, no-frills approach, but it's based upon a detailed assessment of all of our assets.

For example, substations. I'll use a Northeast Corridor example. But you go into a substation, you can say, "It's an old substation. Rebuild the substation." We didn't do that. We said, "Go into the substation, and you replace a transformer, you replace breakers." In other words, it's not a complete rebuilding of the railroad, but it gives you a solid foundation.

And for 2004, we're requesting the $1.8 billion, and that's broken down between capital and operating, $1.044 billion for capital and $768 million for operating. And, in that, we plan to start repaying the loan to DOT. We want to get that off our books. And every time I see Michael, he asks me if I'm ready to pay the loan back. But we do want to pay that loan back.

The plan that we've put forward has no new borrowing, for the reasons that I think are obvious from Mr. Mead's testimony. There's no expansion of service. We're just trying to stabilize the existing system and to try to get the trend of operating expenses and deficit to be trending downward.

When you look at reform—and obviously, based upon what was said here, there is a—I think everybody feels we need reform. The problem is that "reform" is not defined, and "reform" means different things to different people. And there are a number of myths that I'd like to just tick off that people should be cognizant of when they're talking about reform. And Mr. Mead mentioned one of them. But I'll go through my list of myths.

First of all, there's a myth that developed among the states that Amtrak was a source of Federal funding. And it's not. We were never funded to provide Federal funding for State actions. In other words, we tried to support State activities where they wanted to build a corridor, but we were never funded to do that.

The second myth is that Amtrak can be profitable. I think that has pretty well been dismissed. But I think that anybody that thinks that rail passenger service is going to be profitable is barking up the wrong tree.

Myth three is that the private sector is dying to take over our services without a subsidy. I think they'll take it over with a subsidy; but to be a railroad and actually operate on their own without government investment in either capital or operating support is a myth.

Long-distance trains, myth four, are the problem. I think my colleague on my right said that that is not the problem. The Amtrak problem is much bigger than that.

Myth five, Amtrak labor costs are the problem. Our wage rates are not the problem. We're not like the airlines. We do have productivity issues, which we're going to address in the upcoming negotiations, but it's a very different situation than the airlines.

Myth six, the Northeast Corridor is profitable. It's not profitable, and I submit it will never operate without subsidy, particularly massive capital infusions.

And the last myth is perhaps the most—has been the most damaging, and that is that there's a quick fix called "reform," and if we just struck the right definition of reform, we would solve the Amtrak problem. And I would submit that it's going to be much more difficult and it's going to require a lot more effort than merely coming up with a quick reform, and I think that the Deputy Sec-

retary's discussion indicated that this is a pretty complicated problem.

You're going to turn your attention, Congress is going to turn its attention, to reauthorization. And what you have in front of you, what we've tried to give you, what the management's tried to give you and give the board, is a 5-year strategic plan which is less than $2 billion a year. It starts off at $1.8 billion and cycles down to $1.4 billion—$1.48 billion, I think it is. And, by the way, that's not a glide path; that's just the way the numbers came out.

Because at the end of that period—I think it's within 10 years, not right at the end of the period—you're going to have to deal with replacing equipment, and, at that point, the need for capital will grow. But I would say that our plan indicates that you can stabilize the system and keep it in its current form for about a $1.5 billion a year after you've brought it back to a state of good repair. But that's the existing system.

The plan that you have, I think, is practical, it's pragmatic, and I think that no matter what reform is decided upon, the items that are in that budget need to be done. If you look at the details in that project and actually flip through it, whether you're looking at the cars or the locomotives or the infrastructure, it is capital maintenance that needs to be done. And whatever the reform is that comes out of this process—and I have my own idea as to what it should be, but whatever it is, the items that we have laid out to be done that need to be done are real, and they have to be done or we're going to have some really serious problems.

At the end of the period, if this plan that we have put forward is undertaken, I think you'll have a railroad that will—it will run; it won't be a crisis. And assuming we can maintain the managerial control we have now, it'll be predictable what's going to happen. You'll have good data. And we now give you—on a regular basis, we give you, I think, good reporting. It'll get better as time goes on. But you'll have a railroad that you can actually reform. If we don't do something in the near-term, and my focus is near-term, we're not going to have a railroad to reform.

So I would plead with you to take seriously what we have put forward as a 5-year plan. It is not an expansionary plan, but it's what's needed to have the foundation for whatever comes after.

And are there risks in this plan? Yes. The biggest risk is under-funding the plan, because if you under-fund the capital plan, there are going to be physical consequences. And I think if you look at what's in the plan, that statement will be self-explanatory.

There's a risk in the plan. We've assumed productivity gains through our negotiations. I can't guarantee you we're going to get them, but I think that we should make progress in that area.

Will the recession continue? You know, a deficit's a product of expenses and revenue. I think we'll come out of it. Passenger ridership is growing again. We're taking some actions that I think will improve the revenue picture.

And the last risk, which I just wanted to put out on the table, is the risk for the high-speed train sets that we currently operate. They are still proving very troublesome. We're making service most days with most trains, but they are proving troublesome. And I think the consortium, which is Alstom and Bombardier, that manu-

factured them—they designed them, they manufactured them, and they also maintain them, which is a—they are having a great deal of difficulty with those trains. And someone said, “They’re not like French wine; they don’t get better with age.”

[Laughter.]

Mr. GUNN. But anyway, we’re doing fairly well with them, and the passengers like them, but they are a very serious problem and concern for us.

In conclusion, I think the plan that we’re giving you for the 5 years is probably the lowest-cost option, and it’s certainly the least disruptive. And it’s the lowest-cost option, because what it does is it gives you a railroad that can run, that will have minimal operating deficit—there will be an operating deficit, but the way we’re spending the money, you will have a more efficient operation—and it’ll give you time for reform, whatever that turns out to be. So I would make the plea that, over the immediate future, we’ve got to give Amtrak some stability, in terms of funding and direction so that we can get on with the business of trying to keep body and soul together.

Thank you.

[The prepared statement of Mr. Gunn follows:]

PREPARED STATEMENT OF DAVID L. GUNN, PRESIDENT AND CEO, AMTRAK

Chairman McCain, Ranking Member Hollings, and members of the Committee, I thank you for the opportunity to appear today to discuss the future of Amtrak, the company’s FY04 funding request and the broad strokes of our five-year capital plan.

When I arrived at Amtrak on May 15 of last year, the corporation was in serious trouble. Amtrak faced insolvency. Sometime in July, we would miss our payroll. The physical plant had been allowed to deteriorate. Heavy maintenance of cars and infrastructure had ceased several years ago—over 100 cars were wrecked or damaged and out of service. Fiscal controls were inadequate. We would be unable to close our books for FY01 until September of the following year. There was no regular reporting of financial results. The organization was poorly defined and did not lend itself to effective decision-making. Amtrak’s management was top heavy—84 people had “vice president” on their title. The budget process was ineffective, and there was no control over staffing. Our credibility as an organization was in tatters.

Our immediate goal in June and July 2002 was to secure funding to allow us to survive into FY03. However, at the same time, we had to lay a prefoundation for the future. The Board of Directors and I set a goal to have in place by October 1 a functional railroad organization, a zero-based budgeting process, and public reporting of financial and physical results. We also began focusing on controlling expenses. We were successful—we secured a loan from DOT and a supplemental appropriation from Congress that allowed us to make it through the end of the year and avert a transportation crisis. We entered FY03 with an appropriation from Congress which was essentially zero based and which focused available resources on beginning the rebuilding process, as well as controlling expenses. Highlights of the events of the past ten months are contained in the exhibits you have before you.

Expenses at the railroad are dropping as the result of many actions, while maintenance activity is increasing. We have redirected resources into basic maintenance and restored vital programs. We are rebuilding wrecked, out-of-service cars and should have 15 cars back in service by May. To bring our passenger equipment to a higher state of reliability and utility, we have restored the overhauls of cars simultaneous with their four-year inspections. On the infrastructure front, our track-laying system train will be back in service in May after sitting idle for a number of years, and it will be removing aged wooden ties and replacing them with concrete ties which creates greater road bed stability and better ride quality. In addition, concrete ties last about 3 times longer than wooden ones and so you immediately cut recurring maintenance costs with each concrete tie you put in. With a thousand fewer people now versus 12 months ago, we are doing all this with a smaller budget, and we are doing it effectively. We have a long way to go, but it is a start.

We have closed our FY02 books, six months earlier than last year and I will make them available to you very soon. Our Board receives complete GAAP financials, three weeks after the end of each month—which you receive as well. Barring forces beyond my control—we plan to make our budget for FY03, although our cash situation will be perilous. In any event, we must restore our working capital—a necessary requirement for any business.

Earlier this year we sent to Congress our Board approved FY04 funding request for $1.812 billion of which $1.044 billion would be spent on capital investment and $768 million for operating support. Earlier this month I testified before the House Appropriations Subcommittee on Transportation, Treasury to this effect. The capital investment would be used to continue the restoration of our fleet to improve reliability, service and revenue, fulfill our statutory mandates, and make critically needed infrastructure investments to the existing national system and the Northeast Corridor—which we own. There is no new borrowing assumed in this budget, nor any expansion of service. We have seen a reduction in our total costs from FY01 to FY02, and we expect the trend to continue from FY02 to FY03. Regarding the future, I realize that many are unhappy with Amtrak, and usually every discussion ends with the call for reform. Unfortunately, there is little agreement on the nature of reform. What is needed, no matter how we define this reform, is a detailed plan which deals with the legal, financial, and physical realities of Amtrak. The progress we are making so far is the result of a plan—many small steps that already and will ultimately continue to improve our service and financial results. It will not make us profitable; it will make us better. There is no single, simple solution to the Amtrak problem. One cannot be developed overnight—it will take time and thought. I guarantee you though, the problem will be a lot easier to deal with if my approach is successful and the railroad is in a state of good repair.

The only way to bring discipline to large organizations like Amtrak is to build a tight structure, hire and retain competent managers, and institute a strict budget process. My philosophy for managing includes five basic tools:

- an organization with minimum layers, individual accountability for specific functional areas, organization charts documenting the chain of command and all authorized positions;
- clear goals and objectives;
- an operating budget based on monthly staffing levels;
- a detailed multi-year capital budget; and
- a monthly financial reporting and performance reporting for specific responsibility centers and projects.

With these five tools in place, you can manage. They also keep you honest. For too long Amtrak did not have a process that created internal accountability, and the annual funding provided by Congress has always left it close to the edge. So it is no wonder why the problems we have had are both significant and recurring. Even with tighter management and better financial accounting, there are still big risks. However, through better management, we will be able to avoid these recurring financial crises, which divert attention from the real problems and decisions which need to be made.

Clearly, over the next few years, we must define the reform we want and develop a detailed plan to achieve it. We have already instituted several reforms but in considering reform, I would ask you to bear in mind the following myths that are prevalent in some circles:

Myth No. 1—Amtrak can be profitable.

- No national rail passenger system in the world is profitable. Without public subsidy, there will be no passenger rail transportation systems in the United States.

Myth No. 2—The private sector is dying to take over our services.

- Remember why we were formed. We are what is left of a once privately run enterprise.

Myth No. 3—Long-distance trains are the problem.

- This is perhaps one of the biggest myths. If on a fully allocated basis you might start to save significant amounts of money after a number of years. Focusing on this problem is not going to save Amtrak. This approach is a red herring.

Myth No. 4—Amtrak is a featherbed for labor.

- Our wage rates are about 90 percent of the freight industry and are even lower when compared to transit. Wages are not the problem; generating a higher level of productivity, that is the challenge. It is management's duty to seek such improvement.

Myth No. 5—The Northeast Corridor (NEC) is profitable.

- The NEC may cover most of its above-the-rail costs, but it is an extremely costly piece of railroad to maintain. Railroads, both passenger and freight are extremely capital intensive. The NEC is not profitable and never will be. Sure, private groups might be interested in having it, but they would take it only with the promise of massive capital infusions.

Myth No. 6—There is a quick fix—reform.

- The word reform is like catnip to those interested in a quick fix to Amtrak. If the answer were quick and easy, we would have solved the problem long ago. What needs to be done is to tightly manage the company and its finances and begin to make incremental but critical improvements to plant and equipment. As I stated before—there is no silver bullet.

At some point, Congress will turn its attention to the reauthorization of Amtrak, and it will be in this venue that the future of passenger rail service will be decided. In the year that I have been here, I have been struck by the amount of attention that Amtrak generates without real progress occurring in addressing the long-term funding problems that everyone knows exist. I realize that Amtrak is partly to blame for this paralysis of action; recurring crises distract us from the central issues that should be discussed. I know that Amtrak for too long had been engaged in the charade of pleasing its detractors by endorsing the concept of self-sufficiency. Let me be clear, however, that despite the best management that could be brought to this railroad, without support for a realistic investment over the next few years, we will always remain on the edge and the problem will grow worse, risking a real disaster either physically and/or financially. The lack of a detailed policy will soon produce unwanted consequences.

You have before you Amtrak's five-year strategic plan. I believe it is both a practical and pragmatic plan that shows what needs to be done and what can be accomplished with a consistent level of funding from FY04 through FY08. We will stabilize Amtrak and bring the railroad up to a state of good repair. If fully executed, our equipment will be in good condition—and on regular maintenance cycles which means improved reliability and utilization, and the backlog of critical needs to our Amtrak infrastructure will be significantly reduced. Regardless of what policymakers decide is the future for Amtrak or rail passenger service in the United States, I would argue that the steps outlined in the five-year plan are essential and would have to be done in any case. The first down payment on that plan would be in FY04.

Our plan also represents the least expensive and least disruptive course of action for the Congress. Unfortunately, in the past few years, a troubling pattern has emerged of creating new oversight responsibilities as a substitute for a real discussion on the issue. This is a "mugs game," a distraction with no real benefit to anyone unless the goal is to interfere with this company reaching fiscal stability and a state-of-good-repair. Repairing and improving this railroad is the Board's and my immediate goal and is in everyone's interest. We have a five-year plan that will accomplish this, and I am asking for your support and leadership as we move forward. I would urge you to consider this plan in the broader context of Amtrak's reauthorization where it really should be done and end this stutter-step practice of reforming Amtrak through the annual appropriations process. Whatever you ultimately decide to do, I would argue that what is proposed in the plan will have to be done in any event and it will be the least costly option. The railroad must be stabilized and the asset improved—regardless. Taking these steps will provide clear guidance, goals and objectives that will help all of us to avoid these regular and recurring crises that have become so tiresome. If we fail to take these steps now and address these issues, the results could be disastrous.

The CHAIRMAN. Thank you, Mr. Gunn.

Mr. Jackson, when can we expect to receive a plan and legislative proposal as you outlined in your testimony today?

Mr. JACKSON. We don't have the full details hammered out yet. We'd like to take this time, after having outlined the detailed skeleton of what this legislation looks like, to consult with the Com-

mittee. I've already asked Freight Rails and Labor and others to be invited to the table and to come in and talk about the fine points of the details. So we expect 2 or 3 weeks' worth of those types of consultations, after which we'll finalize the draft that we have going and get it up to you as soon as possible.

The CHAIRMAN. Meaning a month, 2 months, 6 months?

Mr. JACKSON. No, I would say our shot is less than 2 months, but we will need a little bit of time, I think, to have the benefit of a consultation and try to see how much consensus we can build around the details. We'd like to start with this committee and have those conversations, as well.

The CHAIRMAN. Mr. Mead, last week, Amtrak released audited financial statements for 2002. The statement improved significantly over the prior year because Amtrak eliminated an accrual for a retroactive wage increase and lowered depreciation expense by lengthening the assumed useful life of its assets. Were those reasonable adjustments?

Mr. MEAD. Yes, I think they were reasonable adjustments. I want to say a word about the financial opinion. This year was an improvement because they came out with the opinion in April. You know when we got the opinion last year? It was in September. If you tried that in most businesses, you get de-listed from the stock exchange. You ought to be getting your opinion on your financial statements out not too long after the close of the financial period to which the financial statements pertain. And so while April is an improvement, I think you really need to have that within 2 or 3 months of the close of the fiscal year.

The CHAIRMAN. Several proposals for managing the Northeast Corridor have been advanced by private-sector companies. Based on your concerns about establishing a for-profit infrastructure, do you think we ought to have those proposals considered?

Mr. MEAD. Not for the foreseeable future. That's my personal opinion. I can't speak for the Administration.

Why do I say that? It's because who, in their right mind, would take on the Northeast Corridor in its current condition? You need billions of dollars to bring it up to speed. They're not going to do— they may take it on, as Mr. Gunn says, they may take it on if you were to give them these billions of dollars and get it in a state of good repair. Once you get the Northeast Corridor in a state of good repair and be able to use your high-speed trains to really perform at high speed, then that would be the time that you could play these other options, such as privatizing, or whatever, on the table, but not before then, and I don't see that happening in the foreseeable future, sir.

The CHAIRMAN. Mr. Gunn, in 2001, Amtrak retained the consulting firm McKinsey and Company to perform a strategic analysis at cost of $10 million. They recommended that Amtrak operate short-distance and new higher-speed corridor trains on a for-profit basis, operate long-distance trains on a subsidized basis, and prepare for privatization. Do you agree with this McKinsey strategy?

Mr. GUNN. No, I think—well, I had real problems with the whole McKinsey approach.

The CHAIRMAN. You had real problems with what?

Mr. GUNN. With their approach, with the way they dealt with the company. And, as I said, I view this much more from the person trying to go from where we are today to a little better position in the next 12 months, and I think that their recommendations missed the mark on what some of the internal problems were with Amtrak, in terms of organizational structure, accounting, and the like.

They made a bunch of recommendations for reform, which are added to the ones that you'll hear today, and I don't think they made—to me, they were not something Amtrak could implement. Now, they may make sense politically, but, from an Amtrak-management point of view, there's nothing I can do with them. What I can do is deal with the reality of the company that I run.

The CHAIRMAN. So we blew $10 million, then.

Mr. GUNN. I wouldn't have spent $10 million—it's actually $12 million, I think.

[Laughter.]

Mr. GUNN. But I wouldn't have spent the $12 million on that.

One of the things I've done is to try to basically get rid of as many of the consulting projects that we had internally—and I think they're mostly gone. And the 5-year plan that we put forward is done by people at Amtrak, Amtrak employees, the people who actually maintain the cars and equipment, and that's the way I prefer to operate. And if they can't do it, you get rid of them and get somebody who can. But I don't believe you pay $12 million for somebody to come in to tell you how you should run the company.

The CHAIRMAN. You've heard me discuss the Sunset Limited. According to GAO, it lost $347 per passenger in 2001. That's why I cannot comprehend why you don't believe that long-distance trains are a part of the problem. But you were quoted in a newspaper article entitled "Amtrak Committed to Long–Distance Trains," where you said, "'Should there be a Sunset Limited? That's a political decision,' Gunn said in an interview with a Lake City reporter, but he left little doubt where he stands on the issue. As long as he is Amtrak's president, Gunn said, 'The Sunset Limited is no more endangered than the whole system.'"

Mr. GUNN. Because——

The CHAIRMAN. Do you really mean that, Mr. Gunn?

Mr. GUNN. Yes, sir, I do.

The CHAIRMAN. So there will be no elimination of any route, because it's a, quote, political decision?

Mr. GUNN. No, sir. We have eliminated several routes already. They were the Kentucky Cardinal and the Pennsylvania. Now, they were put on for mailing express service, they were not part of the national system, and they have been eliminated. Well, one train was turned into a New York/Pittsburgh train, and the piece that went to Chicago was abolished.

No, my feeling is this. I believe in the national network. I think that the Federal Government has an obligation to provide a national rail system. I think it's clear that they provide a national highway system, they provide a national airline system——

The CHAIRMAN. But we don't build highways that aren't used, Mr. Gunn.

Mr. GUNN. Well, but our trains are actually used. The Sunset Limited is—I don't want to give you the wrong impression—it's not an empty train when you ride it.

But my point is twofold. One, we have a national system. And as the president of Amtrak, I have a choice. I can spend my time doing the doable—which is what I have been trying to do, putting in fiscal control, fiscal discipline, driving costs down—or I can engage in a political debate over—which will become a political debate—over eliminating long-distance trains. Now, if I do that, one, I will consumed; two, I don't believe that I should—I believe in the long-distance network, so I don't, personally, want to do it; but, second, it won't save any money.

One of the benefits of the grant process that we have with DOT now is—we were forced to do a direct-cost analysis of the trains. When you do that, the Sunset Limited loses about $12 million a year. That's on direct costs. That's what happens if you just eliminate the Sunset Limited. In order to get that, you've got to go through the labor-protection costs, which are going to take—and notification—which is going to take you a couple of years. So I have a company that—well, actually, this month, in April, we—at one point, we were down to 3 days' cash. And if I spend my time fighting a train—pick any long-distance train—and that becomes the issue, it's strictly the appearance of the thing; I won't save any money, and I'll be diverted from doing what I think is paying off and paying dividends for the taxpayer and for Amtrak and for its passengers and employees.

The long-distance train network, if you want to save the money that one of these two gentlemen mentioned, the $300 million that the long-distance network loses, you have to abolish the whole network, and that is a political decision. I mean, I really think it would be presumptuous of me to do that. Plus, I don't believe it should be eliminated.

So I really think that there has to be—if you're going to eliminate the long-distance trains, you're going to have to fund them for 2 or 3 years without service, and there has to be a commitment from the Federal Government because of labor protection. I mean, that's the facts of life. And there's nothing that I can gain for Amtrak in the short-run by picking on routes of the basic national system.

The CHAIRMAN. Well, I know of no business model that doesn't call for the elimination of money-losing parts of their business, Mr. Gunn, and they—whether it's $300 million or the $547 million that DOT's announced——

Mr. GUNN. It's the whole system, though, Senator.

The CHAIRMAN. Mr. Gunn, you cannot convince me that any business is run efficiently by keeping the least efficient parts of their business, particularly when their business is hemorrhaging money in an incredible fashion. And saying that it's a political decision, sir, in my view, is an abrogation of your responsibility, so I'm very, very disappointed.

Senator Hollings?

Disgraceful.

Senator HOLLINGS. Well, Mr. Chairman, come now.

I think that we have had——

The CHAIRMAN. No, let's not "come now." We've had billions and billions and billions and billions of dollars spent, and we won't even eliminate one route that's subsidizing $347 per passenger. Let's come now, Mr.——

Senator HOLLINGS. Well, good, and we might do that. I don't know. I haven't been in specifically on that particular issue. But I have to say that the testimony that we have had, in general, is outstanding. And I know my good friend, Secretary Jackson, has to give the Mitch Daniel structural reform—he's still studying, and his testimony about structural rot and all, you have to act like you just came to town. You've been in town for 2½ years. I've been beseeching you, on behalf of the Congress, year in and year out for the last 2½ years, month in and month out.

All you've come forward is principles, more study, and structural reform, and you go right to Mr. Mead, the controller, and he says it's under-funded. And you go right to Mr. Gunn, and he says it's under-funded. What he's really attested to is to stabilize, for the next few years, but not to really give what—and this is the best testimony we've had—what Senator Hutchison has said, and that is that we have a national system.

Now, what we have on course after the 2½ years, we've got a bill. I introduced it in January. There are 32 cosponsors. If we had a vote this morning, we could vote it out of the Committee. I've got enough votes to do that. But the idea is not political. The idea is to get it done.

And Senator Hutchison is the Chairman, and, Senator, I'll yield to you. You take over the bill or let's get together with Mr. Mead and Mr. Gunn and get the 5-year plan and see what alterations realistically to take care of the concerns of the Chairman that we're just not throwing the money away and everything else of that kind. But let's get your bill with our cosponsors and everything else and let's put something out and get something done.

You have exactly what I want. I want a national system. And I'm listening, incidentally, I think it was the day before yesterday, I heard Secretary Rumsfeld in Iraq or over there somewhere, and he said, "We're going to build a railroad over Iraq." And I said, "Egads."

[Laughter.]

Senator HOLLINGS. That's the first time I've ever heard anybody from the Cabinet in this Administration say we're going to rebuild the railroad. I've been trying to get them to say so. Of course, the trouble is, he's going to do it in Iraq.

[Laughter.]

Senator HOLLINGS. Let's get it done here in the United States, Senator, and let's all get together and work this thing out.

I apologize, Mr. Chairman, I've got another hearing I've got to attend.

But I want to thank the witnesses, because you've hit the target. I mean, you all have studied it, and we've been back and forth on this thing, and we've got the Congressional support now. They're ready to go. And let's see what changes Senator Hutchison and others want to make and work together, and let's get something out.

Thank you.

The CHAIRMAN. I thank you, Senator Hollings. And I'm sure you understand that we'd like to get the—I'm sure Senator Hutchison agrees—that we'd like to get the proposal from the Administration, as well as part of this process.

Senator HOLLINGS. Well, our trouble is, as part of the process we've been waiting for 2½ years. That crowd doesn't want to spend money. The OMB says, "Not a red cent for Amtrak," and that's their position. I mean, we can understand that, Mr. Chairman, most respectfully.

The CHAIRMAN. Thank you, sir.

Senator Hutchison?

Senator HUTCHISON. Well, thank you, Mr. Chairman. And I really thank you, as well, Senator Hollings, because I do want to have a bill, and I want it to meet the Chairman's criteria and my criteria, which is we do it right or we don't do it at all.

And I have to say that I am in disagreement with the statement of the Chairman. By the standard that he just issued to you, Mr. Gunn, we wouldn't build half the highways that are Federally funded. We've built highways in West Virginia and Pennsylvania and Kentucky that have practically no one using them, or maybe a few people using them, but if you put them to the test of whether they've paid for themselves with highway funds, they wouldn't meet the test. In aviation, we haven't made distinctions. We've deregulated, and many routes have been eliminated, but we still have other routes that are subsidized. I mean, I just think you can't put Amtrak to a different test from the rest of transportation.

We have to make a decision in this country. Are we going to have public transportation that includes highways for automobiles and buses, trains, and aviation? I think we do. I think it is a government responsibility, and I think we need to do it right, and I think it's part of commerce and business in our country. And not one transportation system meets the business criteria that it can make it without any government spending. They all have government spending.

So why don't we make Amtrak an equal part of our multimodal system and do it right. That is my first choice. However, if we aren't going to do it right, I think it is throwing good money after bad.

I want to bring up another view, because I do agree with the Chairman that we need to have a bill that has Administration input, and we do need to have your fleshed-out details on just what a separate operating unit would produce. And I think any part of an Amtrak reform has to include either a privatization option or some requirement from the freight railroads that they meet a certain standard.

I wonder why the Sunset Limited is losing so much money. Could it be that they are 6 and 8 hours late because some of the railroads on the route don't cooperate? Could it be that if we had the same attention to the other routes and the cooperation of the freight railroads, that these would be reliable? Is it any wonder that people who call to make reservations for the summer and are told that the long-haul routes may be eliminated in May or June are going to make alternative plans? And what does that do the revenue of that line? We never recovered from the last time we said that we were

going to eliminate the routes, and then at the last minute we come in and we don't eliminate them. But how many reservations have we lost that we never get back?

So if we're going to give Amtrak a chance, it has to have a real chance. So let me ask you this question. There is another proposal out there—I have met with some of the people who are looking at it—that we would deed the Amtrak lines from the Northeast to an entity that would issue bonds. It would be a private entity—public/private—but it would be a private entity that would issue bonds to upgrade and maintain the rail in return for which we would have leases that would allow them to repay their debt, and the leases would be from the Amtrak operating unit.

Is that something that you think we could pursue to get the government out of the maintenance operation and into operational operations, which would put the Northeast Corridor, hopefully, in a better situation? And there seem to be willing people to look at this. So I'd like to ask the three of you if you think that is an avenue that we could pursue if we're going to really reform Amtrak. Mr. Jackson?

Mr. JACKSON. I think that the right way to think about the process here is that capital investment and the solution is an important thing to accommodate a structure to. So is it a silver-bullet solution? No.

And the word "privatization" is, I think the wrong word to think about, in terms of the corridor, because I believe that we ought to have a public ownership of the corridor contracting out to private entities to operate it in the most efficient fashion. And that would, in our Administration's proposal, include initially contracting out to the Northeast Corridor infrastructure company that is peeled off from Amtrak in due course. But it would also, in due course, accommodate private-sector investments that would be duly reviewed by the public entity created to operate this, and I believe that there is a role for making this operate more effectively with those types of private-sector proposals to help manage that asset. So——

Senator HUTCHISON. Including letting them go into debt in return for some kind of revenue stream?

Mr. JACKSON. I think that we should absolutely——

Senator HUTCHISON. It would be the repair and maintenance?

Mr. JACKSON.—consider those types of proposals. An entity created to operate the corridor should solicit every creative financial mechanism that is, you know, out there for assessment and review.

Senator HUTCHISON. Mr. Gunn?

Mr. GUNN. I think you've raised a good issue. You mentioned the freight railroads and the conditions of the freight railroads. While Amtrak—everybody's focusing on Amtrak—if you look at what's going on in the railroad industry in general, they're in very serious trouble, financially. I mean, their ton miles are going up, their revenue per-ton-mile is going down, gross ton miles per freight-train hour is dropping, which is a—what's happening to them is, they're not generating enough money to pay for the capital they need to operate that plant. And I think whatever arrangement we make with corridors or long-distance trains, where you're operating over the freight railroads, you have companies that are in very serious trouble. I mean, the——

Senator HUTCHISON. Well, let me ask you this, then. If that's the case——

The CHAIRMAN. The Senator's time has expired.

Senator HUTCHISON. Could I just——

The CHAIRMAN. Senator Lautenberg?

Senator HUTCHISON.—finish that thought, please?

The CHAIRMAN. The Senator's time has expired.

Senator Lautenberg?

STATEMENT OF HON. FRANK R. LAUTENBERG, U.S. SENATOR FROM NEW JERSEY

Senator LAUTENBERG. Mr. Chairman, I don't know whether we're distributing time on some formula, but——

The CHAIRMAN. We'll have a second round, if necessary.

Senator LAUTENBERG. Will that include the same amount of time as the Chairman took in his questioning?

The CHAIRMAN. We'll go by the clock, I say to Senator Lautenberg.

Senator LAUTENBERG. Yes, the clock was red.

The CHAIRMAN. The clock beginning, please.

Senator LAUTENBERG. Yes, the clock was red, sir, for a long time, and I'm seeing a little bit red here today myself.

I've known Mr. Gunn a short time, but I've known his record for a long time. A long time. MTA and other places. And I may have differed with you occasionally on a policy matter. But I want to say I haven't seen you do anything disgraceful. Because you exercised your judgment and you spoke up for it? There's no disgrace in that, Mr. Gunn. Do it, and do it forcefully.

We're tackling a subject here in a manner that, frankly, I think, is disgraceful. Give me one example, Mr. Jackson, if you would, of where going private was an answer to a government problem. Was it in, for instance, the baggage handlers that work at the airport? Did we like what government was doing in those cases, or government supervision was—I'm sorry, private supervision was doing there?

Mr. JACKSON. In the case of baggage handlers, the Congress decided to make that a public function, but we couldn't have ever gotten the transition to the private baggage handling, from the private baggage to the public to work without substantial cooperation and help from the private sector. We used smart, good people in both the public sphere and the private sphere to do the job, and that's exactly what the Administration is proposing here.

Senator LAUTENBERG. Well, to me, it is sort of backwards. I mean, here we're talking about—the other day we talked about privatizing parts of FAA, and now we're talking about dumping the whole Amtrak infrastructure. And the fact of the matter is that no one is looking at the end game here. We see lots of businesses—and I come from the world and I know what I'm talking about—that hold onto branches that lose money constantly because it's part of a total infrastructure for the company, that they have to supply a service whether they like it or not. You can't always peel off that which you don't like.

We spent a ton of money on the military, and we saw the results in Iraq. We saw technology operating as it never has before, and

we saw a really small—except for those families that had to endure loss of life or loss of health or loss of well-being. It's because we spent the money. We didn't get a return on it until quite late in the game. And that's the job of government; not to throw away money, but to spend it where you know it's a vital service.

We have essential air service here. New Jersey doesn't get any essential-air-service benefit, but we do it. New Jersey sends down—and the Chairman corrected me at a previous meeting—$1.65 for every dollar we get back from the Federal Government. The Chairman issued a challenge. The fact is that the Chairman's reference was to transportation only; I'm talking about overall funding. Arizona gets $1.15 for every dollar it sends down. New Jersey sends down $1.67 to get back its dollar.

We are a United States of America. That means all states. That means that we all have to help one another, whether it's a flood or a drought or an earthquake. We all have to help out. And I'm not begging for help for New Jersey and New York. I'm saying that a balanced transportation system may benefit some at one time and others less at another time.

And when we opened the airport here, the Washington National Reagan Airport, to flights from longer distances, it wasn't by unanimous consent. It was by a description of the need to extend the mileage beyond that which originally the compact had.

Look at the experience of the U.K. Look at the experience of other countries, and see what happened. Whether we like it or not, this country is going to have a railroad, and it may not cover the distance that it covers now. But I assure you, between the major cities of our country, there is no other way. In the New York/New Jersey area, it costs $8 billion a year just for the cost of congestion—lost fuel, lost time, et cetera. It doesn't go into anybody's pocket that's of benefit.

And so, Mr. Chairman, with all due deference—I have great respect of the Chairman of this committee—we do differ occasionally, as may be noticed.

I would ask unanimous consent that my full statement be included in the record as if read.

The CHAIRMAN. Without objection.

[The prepared statement of Senator Lautenberg follows:]

PREPARED STATEMENT OF HON. FRANK R. LAUTENBERG, U.S. SENATOR FROM NEW JERSEY

Mr. Chairman,

Today's hearing is immensely important because we will be considering the present and future status of passenger rail service in our country. What role should passenger rail service play in a national, intermodal transportation system? How should we fund it? What is Amtrak's future?

Amtrak has its fierce defenders and its equally fierce detractors. I am one of its fierce defenders because I believe that the passenger rail is a vital component of our national transportation system. In rural towns across America, passenger rail may be the *only* option for intercity travel for many people.

In the Northeast, we rely heavily on Amtrak's high-speed service between Boston and Washington, D.C. The Northeast Corridor serves cities with four of the Nation's seven most congested airports: Logan, LaGuardia, Newark, and Reagan National. Amtrak carries more passengers between New York and Washington than all of the airlines combined and, unlike airline passengers, rail travelers are able to stop in Trenton and Newark, New Jersey, and in other places along the way.

As our cities and suburbs continue to swell with people, our roads and airports become more and more congested. I think the prudence of increasing our investment in another way to move people—passenger rail—has become more and more obvious. But like the salesman often says, if you don't buy now, the price goes up tomorrow. Do we want to wait until we back ourselves into a no-win situation? Here in the Northeast, the first part of the country to become densely populated, we faced congestion problems long ago, and passenger rail service became a mainstay.

New President and CEO David Gunn is clearly doing a fine job stabilizing Amtrak. He has reduced costs and is aggressively trying to bring the infrastructure and equipment into a good state of repair. He does not have an easy job, and I commend him for his take-charge attitude and accomplishments to date.

But it is up to Congress and the Administration to make fundamental policy decisions about the roles of passenger rail service in general, and Amtrak specifically. While we should be concerned with its day-to-day operations and efficiency, we also need to be thinking about the big picture. Where is Amtrak going to be in five years? Or 10 years? In this post-9/11 environment we have a new perspective about the national security interest in ensuring that there is more than one way to get from here to there, and this includes passenger rail.

Some people claim that privatization is the answer; that the private sector can do things cheaper, better, and more efficiently. Privatization is *not* always the best answer. Sometimes, it's not an answer at all. I would remind my colleagues that Congress created Amtrak in 1970 to bail out the private sector because it couldn't provide passenger rail service at a profit.

Even though Amtrak is a truly *national* passenger rail service, some opponents see it as a parochial interest solely in the Northeast. Even if that were so—and it is not—I will conclude my remarks with the following observations:

First, we are the *United* States of America. One of the things that unite us is our intermodal transportation system. New Jersey doesn't benefit from programs like Essential Air Service (EAS), but I support such programs because they help tie in other parts of the country to us.

Second, on a related note, the Northeastern States serve as an ATM for the rest of country. We have 21 percent of the Nation's population but pay over 25 percent of the taxes. In Fiscal Year 2001, for instance, for each dollar the taxpayers of Massachusetts, New York, and Delaware sent to Washington, they got back 84 cents in spending. For Connecticut's taxpayers, the return was 67 cents. For my taxpayers in New Jersey, it was 65 cents.

All in all, the 60.5 million people who live in the Northeast paid $496.4 billion in Federal taxes, but received just $386.5 billion in Federal spending in 2001. That extra $110 billion went to other parts of the country. What that means is that people in the Northeast disproportionately paid for the grain subsidies that benefit the Midwest, the cotton and rice subsidies that benefit the South, and the hydropower, irrigation, timber, mining, and grazing subsidies that benefit the Mountain and Southwestern States.

We Northeasterners do this because that is the price of our *Federal* system—a system that has worked exceedingly well for all Americans for over 200 years now. I look forward to hearing from our witnesses today and I look forward to working with the Members of this prestigious Committee to come up with creative ideas for ushering passenger rail service into a new era.

The CHAIRMAN. Senator Lott?

Senator LOTT. Mr. Chairman, I apologize that I have been in and out this morning. I'm very interested in this area. And I have, over the years, discussed this with all three gentlemen at the table and with the Chairman, and I've had a lot of mixed emotions. I do think, as others have probably said here, we've got to make a basic decision. Do we want a national rail passenger system or not? And if so, are we willing to pay for it?

I've had to eat my words, because I basically said, when we passed this program 5 or 6 years ago, to Senator McCain on the floor, "We're going to make this thing work. We're going to make it pay for itself or, you know, we're not going to support it." Well, I'm crawfishing off of that. I admit it.

I don't know. I ask myself sometimes, is it because I'm romantically involved here? I just love the concept of having a diverse

transportation system that includes a national rail passenger system. I do think we need it. If we're going to do it, though, we're going to have to admit what the costs are and be prepared to deal with that.

I think we've got a good strong leader in Mr. Gunn. I appreciate the job he's doing. Unfortunately, he tells us the good, the bad, and the ugly, and we don't like to hear the bad and the ugly part of it. But I think that's the kind of guy he is, and he's trying to get the thing straightened out. And I do, of course, like the Chairman of the Board, John Robert Smith, of Meridian, Mississippi, who is committed to trying to do this thing in the right way.

I don't know exactly what Senator Hutchison said, but—and if this is just going to be a Northeast Corridor, well, let's just make it a Northeast Corridor and be done with it, decide how we're going to deal with that. But I don't think my constituents want that. We want the Northeast Corridor to be a viable system; but we've seen, time and time again—we do need it, but I do think there are some benefits to a national system.

I apologize for not being able to actually ask some very critical questions at this point, but since I don't exactly what's been said or what's been asked, I'll defer at this time.

I am going to be looking forward to working with the Chairman of the Subcommittee and the Chairman of the full Committee to make some decisions of what we are going to do in the future. I personally think we need it and need to continue it, and then I think we need to deal with the realities of what it's going to cost.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Senator Sununu?

STATEMENT OF HON. JOHN E. SUNUNU, U.S. SENATOR FROM NEW HAMPSHIRE

Senator SUNUNU. Thank you, Mr. Chairman.

Let me begin by saying, Mr. Gunn, I think you've done a good job. I think you've been aggressive. I am at least familiar with your experience, and it is impressive. I think you're the right person in the place at this time. And you began by talking about the things that you've done that are good, that are strong—better plans, better auditing, better analysis. You've put together an exhaustive assessment of what you want to do over this 5-year period with $8 billion, and I would hope that if anyone were asking the government for $8 billion, they'd have a pretty good plan of how they were going to spend the money.

But what you are effectively saying is, "If you give me $8 billion, you can trust me to spend it well, to invest it as well as possible, and, at the end of this 5-year period, I'll give you a system that's no longer in crisis and that only requires a subsidy of a $1.5 billion a year going forward." Now, based on current ridership numbers, and even if you inflate them a little bit, that is an average subsidy of $50 per passenger in the system 5 years from now. Now, that may be a dramatic improvement over the current situation, but I don't think that that's really a program that will incite confidence in the taxpayer or committees that, at the end of the day, we'll

really have something that has a clear sense of purpose and mission and, arguably, some economic rationale.

Now, I hesitate to use the word "economics," because everyone might leap to the conclusion that that means we're talking about having Amtrak be profitable, and this is not a debate over whether or not we provide some subsidies to passenger rail at the Federal or the State or even the local level. We've got transit programs, we've got all kinds of subsidies out there. Yes, we have a highway program, and we subsidize small airports and rural airports. This is not a debate over whether we subsidize the system.

I think, first and foremost, this is a debate and a discussion over whether or not there's the level of economic rationale in these figures and in this system today, and hopefully 5 years from now, that we would expect, as policymakers, and that the public would expect.

To that point, I think the Chairman's question about these long-distance routes is very important, and it is not enough simply to say, "Well, we believe, in principle, that a national system is a good idea, it's somehow a good thing, so we're going to stick by all of these numbers." And I won't run down all of the subsidy levels on the long distance, but they are enormous. And the Sunset is just the tip of the iceberg. It's not enough just so say, "In concept, we think a national system is good," because if you make that statement in principle, then you're effectively saying, "Well, we'll support a national system, no matter what the cost. No matter what the economic impact on the taxpayer, on consumers, we're willing to support a national system." And I don't think that's necessarily the position you're taking.

But I think we have to at least look at the economics so that we understand the scope of the subsidy and what we are putting the taxpayer on the hook for. And there's no getting away from the fact, even with this aggressive plan, which we might say is the best plan we've ever seen for Amtrak, at least put on the table as a public entity, it still puts the taxpayer on the hook for $1.5 billion per year in perpetuity, period. And it doesn't even address the debt situation.

You went through a series of myths. One of the myths you talked about was the myth of labor costs, that this is a myth that this is a problem. But then when confronted by the subsidy rate of $348 per passenger subsidy for the Sunset Limited, your rationale for not being able to do something about that specific question were the labor costs and, in particular, what do you call it—the labor protection that would be required. You can't say that the labor issue is a myth, that labor is a problem, but the reason we can't get rid of a route is because of the labor protection cost. So, you know, I'd like you to address that point and talk about whether or not these labor protection costs really are an economic problem within the system.

You've got time.

Mr. GUNN. Labor protection costs are not a cost unless you get rid of the train, so that's—obviously, if you're getting rid of the train, it is a cost. When I was referring to labor costs, what I said was related to an ongoing operation, and I said that the problem at Amtrak is not so much the wage rates is, we have some work

rules which I think could be changed and which will give you greater productivity.

So all I was suggesting is that people will make the analogy between Amtrak and an airline. Well, it's different, because our wage rates are very different from the airline industry. Our problem, in terms of productivity, I would submit, is much more in terms of work rules. And in the plan that we've given you, that assumes that we will make significant progress with our labor organizations in terms of work rules and productivity.

The labor protection piece is—I mean, that's only a cost if you're getting rid of the train, so that's why I didn't—it doesn't affect——

Senator SUNUNU. Well, I appreciate that, but I think it is a significant cost. It is an opportunity cost. It's an obstruction to reform, to evolution, and to modifying the system.

One final question. I would like to hear a little bit more about the mortgaging of Penn Station, because there's no other public entity that I know of that has gone out and basically borrowed money against public assets. And we can talk about the interest-rate differential. But, for Amtrak, as an entity, to go out and mortgage public assets that are, again, owned by the public, is stunning.

What is the size and the scope of the debt that now exists, obligations that are held against public assets, like Penn Station?

Mr. GUNN. Well, first of all, let me just say that that happened prior to my arrival. I would not have proposed it. I think it was a bad decision. And we are not mortgaging any additional assets at this point, and we don't plan to.

I believe they got $300 million for that, wasn't it, Ken? I think it was $300 million. The debt on Amtrak's books, on our balance sheet, is $3.7, $3.8 billion.

Senator SUNUNU. And, to be clear, the 5-year plan that you have really doesn't address pay-down of that debt, a swap-out of that high-interest debt, or—it just deals with paying the legal requirements on principal and interest.

Mr. GUNN. That's right. But, actually, the debt—the interest rates peak this year, and they'll drop. And if you look—if I could show you the income statement, you'll see the interest charges dropping. But it'll be a number of years before we're really out of that.

The only debt we're repaying, proposing to repay, is to begin repaying the $100 million loan that we got from DOT last summer. That—I think we should build that into our budget, at least in part, to pay that back, and start that in 2004.

Senator SUNUNU. Thank you, Mr. Chairman.

The CHAIRMAN. Senator Hutchison?

Senator HUTCHISON. Yes, before our time runs out, I would like to finish a thought with you, Mr. Gunn, and that is, if the railroads are in bad financial condition and, therefore, unable to be cooperative with the right-of-way on the track, would it be worth it to a railroad to donate right-of-way next to its track, let Amtrak build track so that it would have the full usage of it, not having to buy the right-of-way, making it hopefully more economical, and then Amtrak could have total control of its routes and its tracks? Would that be something that would be worth looking at? Might it allevi-

ate the situation with the railroads and give us a chance to have a system that would be on time and better served?

Mr. GUNN. Well, obviously, the railroads would decide what they could donate to us, but I think that the cheap—forgetting for a minute whether they donate or don't donate, the cheapest solution for giving Amtrak and freight a good ride may well be something that's less expensive, and that is just adding some additional sidings and crossovers and so forth.

For example, on the Sunset Limited route, you couldn't propose building a right-of-way for one train. I mean, that would be very uneconomic. But you could say, on some of these routes, that there is a public benefit, for both freight and passenger, if we can solve some of the bottlenecks and constraints.

And I would suggest that what you do depends upon the route. In other words, there are some routes where there's no room, and so if you want passenger service, you have to build a separate right-of-way, if you want good, reliable, frequent passenger service. But there are other routes where you can make—for example, Portland, Seattle—where you can make modifications—and if you have a willing railroad—you can make modifications to the existing track structure and—the layout, the number of passing sidings, and so forth—and you can provide the added capacity at a pretty reasonable cost, much less than building a separate track.

So you have to, sort of, base the solution on the problem you're trying to solve. There's no cookie—I can't give you a cookie-cutter answer to that. But there are some areas where you need more track; other areas, you just need some additional passing sidings.

Senator HUTCHISON. But one of the reasons that I believe it is so important that we make the right decision here is that it would be impossible to buy right-of-way to build new tracks. We have to deal with the right-of-way that is already there, and I don't—I just don't know the cost-benefit analysis to the railroad, but I think it is certainly worth looking at asking them for the donation. And maybe you start with what you're proposing; you look at the worst problems, and you try to do bypasses on their right-of-way with their consent and see if that is helpful to them, as well, so that it is a win both ways. And I think that should be part of any kind of long-term plan that we would put in place. Because I know the Sunset Limited or the Texas Eagle or any of these other routes that are 5 and 6 and 8 and 10 hours late routinely are not going to have a chance to succeed. So that was my question.

My last question would be to Mr. Mead, back on my original question. Do you think that either what Mr. Jackson proposed, contracting out to private companies and let them do debt, or selling the trackage to a private company, let them issue debt to maintain, with the return lease that would be to help them pay for the repairs and maintenance that they're making—would that be any kind of a feasible alternative?

Mr. MEAD. In the Northeast Corridor, I think the tab is simply too large for the immediate-term. I think in the immediate-term, there needs to be an infusion of capital to the Northeast Corridor.

Can you borrow it? The problem with borrowing it is that the amount that you'd have to borrow—you know, the investors would expect a return over a reasonable period of time, and that return

would have to come from the people that use the corridor; either that, or the Federal Government would have to pay, and it would be a very substantial amount of money.

I think that the concept that you offer is workable once you are in a reasonably good state of repair. But really there's no way of cutting it, other than to say that if we want the Northeast Corridor to be in a state of good repair, it's going to take some big money.

Senator HUTCHISON. Mr. Gunn, I would like to ask you to help us by showing us where bypasses like that might make a significant difference in the system, and then let's discuss if, in the overall, that would make a difference in a long-range plan. I'd like to have that as part of our considerations.

And I would like to work with you, Mr. Jackson, as well as the other members of this committee, to have a bold plan in our reauthorization, and that would be my goal this year.

Mr. JACKSON. Senator, if I could just say—and then also to the point that Senator Lautenberg made—it's important to understand the Administration is not proposing privatizing the Northeast Corridor. We are proposing to create a government entity to manage it in a more coherent fashion and to give us some stability over the long-haul to manage what is a very, very important transportation asset.

Senator HUTCHISON. I understand. There was a difference in your concept and what I was putting forward.

Mr. JACKSON. Yes, ma'am.

Senator HUTCHISON. But it might work the same way if you had the private contracting, and they would then be able to finance in their own way. They'd have to make the business decision.

Thank you, Mr. Chairman.

The CHAIRMAN. Thank you.

Finally, Mr. Mead, I guess I would ask you to comment on the rather Orwellian situation that labor costs are not a factor unless you try to impose efficiencies, i.e., cancel a route, and then labor costs then become a factor. What's the situation here that dictates that bizarre situation?

Mr. MEAD. Well, under the rules, if you are to terminate a route and the labor on it, they're entitled to be paid a certain amount of money. I don't have the details of the exact arithmetic here, but it's very substantial.

I didn't mean to suggest, when I was talking about the long-distance trains, that that $300 million figure was not a problem. It is. What I meant to say, absolutely exact, is that anybody that thinks that getting rid of that $300-million problem is going to take care of the problem that we have with Amtrak, that is wrong. And that is what I meant by the $300 million problem.

The labor-protection issue, it's got a lot of dollars attached to it. It probably would require a change in the law.

The CHAIRMAN. My staff tells me we changed the law to make it 5 years on contracts.

Go ahead, Mr. Gunn.

Mr. GUNN. Just to—what happened was, originally there were—labor protection was in the law, and Congress, in one of the reauthorizations——

The CHAIRMAN. 1997, I believe.

Mr. GUNN. Yes. It dictated that—or they told Amtrak they had to negotiate labor protection, which produced the same result, because we ended up in arbitration. But we did drop the protection one year.

And the way the protection works——

The CHAIRMAN. So it does not require a change in the law?

Mr. GUNN. Pardon?

The CHAIRMAN. It doesn't require a change in the law.

Mr. GUNN. No, sir. It's a negotiated agreement.

But labor protection starts with an employee who has 2-plus years, and they get 6 months' pay; and it goes up in increments to an employee with 20-plus years gets 60 months, or 5 years' pay. And it's a little more complicated than that, because it provides that the employees have to exercise bidding and bumping rights, which means you not only have the protection, but you end up with a tremendous amount of movement of employees throughout the system. So it basically obviates any savings from taking off a train until you've gone through this. And it is—looking at our workforce, I mean, our workforce is probably, average, 15 years. I mean, you're looking at—at 15 years, you're looking on it—if that's the average, it's 36 months, or 3 years.

The CHAIRMAN. So you've—not you, but it's been effectively negotiated that any cost savings which would be dictated by a reduction in routes would, therefore, be prohibitively expensive because of labor costs. It's a strange way of doing business.

I thank the witnesses, and I appreciate the——

Did you want to—go ahead. Go ahead, please. Senator Lautenberg?

Senator LAUTENBERG. Yes, thanks very much, Mr. Chairman.

I wanted to pursue something that Mr. Jackson said in his last remarks, and that is that conceptually when we're looking at a government-created corporation, who owns the corporation? The Federal Government?

Mr. JACKSON. Well, it would be a—ownership of the infrastructure would be owned by the Federal Government, by statute, is what we would propose from the Administration, but it would be operated and sustained in a compact between the Federal Government and the states.

Senator LAUTENBERG. Well, wasn't that where the Government was going when, in 1970, they stepped in to Amtrak to create Amtrak as a national passenger rail service company; and the forecast, as I read it, was that it would get itself on a pay-as-you-go basis within fairly few years. That was 33 years ago. Was that a government corporation that then was created?

Mr. JACKSON. No, it was intended to be a private corporation, and that business model failed. That's why I would argue that what we need to do is put in place a new business model. We're acknowledging that the experience of 30 years has suggested that this corridor cannot be operated without the infusion of some public funds. And so the question is, who pays those funds, how much are they, and how do you structure that infusion?

Senator LAUTENBERG. That's the crystal ball we're looking at. It's——

Mr. JACKSON. Trying to look at it, and David is trying to give us——

Senator LAUTENBERG. So what gives you hope that a new structure, which is so similar to the 1970 creation, will be any different? Will we be out of the subsidy business, in terms of the Federal Government?

Mr. JACKSON. I don't think so.

Senator LAUTENBERG. No? Well, what's going to make it better?

Mr. JACKSON. The difference is, is that when Congress created Amtrak, they thought that Amtrak would be a privately-owned for-profit company that would come in and, after a very short period, sweep away all the need for public investment in the infrastructure and operating subsidies.

Senator LAUTENBERG. OK, but——

Mr. JACKSON. And what we've said is, is that doesn't work, and so we need to get the Federal Government bolted together with the affected States and try to find a mechanism that allows us ownership as a government for the long-haul and contract out operations, but not the ownership of it.

Senator LAUTENBERG. Mr. Gunn?

Mr. GUNN. One caveat I'd add to what's being discussed, is that if, in fact, you're going to set up a separate corporation for the corridor, you'd better be sure that the operating responsibility and the maintenance responsibility rests in the same body. You do not want to follow the British example of separating track from the people who run the trains. It doesn't work very well, and the best proof in this country is the problems we have where we run on somebody else's track, and we, sort of are living proof of the problems you have.

So if you're going to set up a separate corporation, you'd better make sure, or I would recommend you make sure, that that corporation have both operating and maintenance responsibility, and not separate the two.

Senator LAUTENBERG. So it'll look a lot like its first cousin, which is Amtrak now.

Mr. GUNN. That's right.

Senator LAUTENBERG. Yes. So the prospect of lots of money-saving and all that and no, or very few, subsidies of a relatively small amount is not part of that thinking, huh?

Mr. JACKSON. Well, I think it will continue to require subsidies to make the corridor work. As David said in his testimony, it's a myth that the corridor makes money. It doesn't. It won't. And so the question is, who pays and how much? What can we afford?

David has proposed a plan of some $2 billion a year, which is disproportionately focused on providing the needed Northeast Corridor operation, but I think that plan has vulnerabilities which can come back to bite us and not to mention which is the potential need to recapitalize much of the rolling-stock infrastructure of the railroad, to look at ADA required, statutorily required, investments which are not in the business plan, to look at required investments in other facilities and to assess the type of vulnerabilities that he mentioned relative to the Acela fleet, which could be a significant financial burden.

So we're saying, build a structure. Understand that we want to try to produce something that will allow us to manage it in the long-haul.

Mr. MEAD. And I think a major difference, Senator Lautenberg, especially outside the Northeast Corridor, would be that the states would have much more to say about where those trains, that we presently know as long-distance trains, where they go between City A and City B and City C with increasing frequency, rather than focusing on a cross-country train. And I think part of the essence behind the proposal is to give capital grants to States. States would be in the driver's seat, so you don't have Amtrak making all the decisions for the entire United States.

Senator LAUTENBERG. Right, but does that differ from highway funding, that—it has a much larger revenue base, but the fact of the matter is that the states are making decisions in cooperation with the Federal Government about where these things lead us——

Mr. JACKSON. Not, exactly. It looks much more like the way we do all the rest of transportation—Federal transit grants, Federal highway grants—where the states are in the driver's seat of gating the demand for projects and making enough of an investment in them that they have a financial stake in the process. Right now, the Federal Government just drives up and drops Brobdingnagian-sized buckets of cash on the Amtrak and intercity passenger rail problems. That's not a good enough way to go forward.

Senator LAUTENBERG. Right, but if they're being asked to consider investing in rail service, and over here it's paid for largely by taxpayer money, and up there it's largely paid for by taxpayer money, the revenues from those sources go into the equation. But what's the incentive to go ahead and build trackage if not enough people take it to where you have a majority, like you have in the automobile? And it's a question of whether there's leadership that's willing to say, hey, this country, in order to get out of the pollution problem, the congestion problem—the costs for congestion across the country are some $80 billion a year. Does that ever get reckoned into the calculation that you have to make on whether or not you continue to build rail services? And there are lots of corridors besides the Northeast Corridor that look pretty appetizing for——

Mr. MEAD. But Amtrak has no incentive to really focus on these other corridors that you're speaking of. What they have—and the frequency of service in those corridors—what they have an incentive to focus on is keeping those cross-country routes. Where I think the contention I would make is that, in between, the states have cities that they want to have service to. But right now, Amtrak doesn't have any incentive to do that.

Mr. JACKSON. Well, it's worse. Amtrak has every incentive not to make rational business decisions, as the Chairman was talking to, so we have to create a structure that imposes some degree of rationality, and the states and the Federal Government have to have a partnership to work on that. And it'll look a lot like the way we do——

Senator LAUTENBERG. These going-out-of-business sales have enormous costs.

Thanks, Mr. Chairman.

The CHAIRMAN. Senator Sununu?

Senator SUNUNU. Thank you, Mr. Chairman.

I would just pick up on that point and emphasize I don't see engaging the states in a partnership as a going-out-of-business sale. I think it makes good policy sense to have them participate. I certainly don't believe that there's no leadership at the State level, or interest in transit, or intercity train operations at the State level.

Coming from a New England State where there is now some new and growing service that is, in part, a partnership between Amtrak and New England Passenger Service, it's headquartered out of Maine, I think they've done a fair job to start the service. But it's clearly a partnership where the states are committed to providing some of the support for both the infrastructure and the operating subsidy. We'll see how it goes, but there's clearly an interest. There's leadership at the State level. And I don't think that the suggestion that the states don't care about passenger rail should be used to oppose any proposal that's put forward by the Administration or anyone else.

Mr. Mead, I want just a little bit of clarification on a couple of points you made. I appreciate your earlier clarification, that you weren't trying to dismiss $300 million, but you did say that $300 million isn't going to solve the problem.

Two points. First, I look at the allocated loss. On long distance, I see it as $550 million. We don't need to quibble about whether it's $300 million or $550 million. It's a significant amount of money. But if you use, sort of, the rationale that it won't solve all the problem as a reason for not entertaining wholesale reform of these long-distance routes, then you're going to just sit around and wait for the $1.5 billion silver bullet. Now, I don't think that's where you're coming from, but I certainly want clarification.

Yes, if you have a $1.5 billion problem, you can't solve it with just a $300- or $400- or $550-million reform, but that's a start, isn't it?

Mr. MEAD. Yes, sir. And I appreciate the opportunity to clarify.

Let me take a cross-country route or what we know with the long-distance route. And take that route—say it's a thousand miles long. That thousand-mile route goes from point A to point, say, E. OK? In between points A and E are points B, C, and D. I'm saying it makes more sense to focus on the traffic between points A and B and back to A and back to B because they're from two city locations, and it doesn't make sense to focus on going from point A to point E. And the states have the vested interest in that going back and forth from point A and B——

Senator SUNUNU. And I don't disagree—that's an important point that you make. I don't disagree with it, conceptually. I mean, you seem to be making an argument for the focus on corridor activity A to B instead of the long-distance activity A to E, and I think that's very much along the concerns that have been expressed by the Chairman earlier. But you also said, in some of your opening comments, that long distance, the long-distance subsidy, was the glue that held this network together.

Mr. MEAD. That's right.

Senator SUNUNU. Now, it seems to me that the statement you just made and the concerns about this $550 million operating sub-

sidy are at odds with, somehow, these A-to-E trains, these long-distance trains, being the glue that holds the system together.

Mr. JACKSON. Well, Senator, it's even worse. The amount of glue that you need is a lot more than we're talking about here, because this gets into—it's not a small point—about how you define what these trains cost us to run. David's numbers are avoidable costs. The numbers that I would suggest, that are in our testimony, that you ought to look at is the fully allocated contributions, which is depreciation and interest, in which case long-distance trains are an $826 million idea.

Senator SUNUNU. And I don't want to get into a—yeah, I love cost accounting as much as the Chairman does, I'm sure.

[Laughter.]

Senator SUNUNU. So I don't want to go down that route.

My point was simply that the losses are significant, and I can understand that policymakers may argue that they want a full national service out of principle—I talked about that point earlier—but I'd see no factual basis for the argument that somehow the long-distance trains are an essential glue that hold the whole system together and that you can't have viable, strong corridor service or intercity service without long-distance trains.

Mr. MEAD. You're absolutely right. But the point is, the political glue is different from the essential glue, and I can tell you——

Senator SUNUNU. I appreciate that you did not use the phrase "political glue." We all get to revise and extend, and I won't disagree with your final point, and we don't have to go down the political road at the moment.

Mr. MEAD. Can I make one other point on a question you asked earlier that Mr. Gunn, I think, responded to? Your question had to do with a payment of the interest on this debt.

Senator SUNUNU. With the payment of principal and interest, yeah.

Mr. MEAD. Yes. That comes out of a subsidy. You give a $1 billion subsidy to this railroad; about a quarter of it is going to go to debt.

Senator SUNUNU. And the reason I brought that up was to emphasize that at the end of this, you know, thoughtful 5-year, $8 billion plan, we've reduced the principal only marginally, if that, the $100 million to transportation, but the interest rates—it sounds like, contractually, they go down slightly, but you still have, effectively, the same lump-sum $3.7 billion.

Mr. GUNN. No, it goes down.

Senator SUNUNU. It goes down to—how much will the principal be?

Mr. GUNN. I don't have the number in front of me. It goes down a fair amount, because you're paying principal and interest.

Senator SUNUNU. OK. I would really hope that someone in this room does know, because—what it would be after 5 years. It's kind of an important issue.

Mr. GUNN. Mr. Mead might know.

Mr. MEAD. This 5-year plan we've been studying—by law, we have to review Amtrak's strategic plans, and this 5-year plan was dropped on us on, basically, the eve of the Congressional hearing. It is a very lengthy document, and we really haven't had time to

analyze it. And I would want to get back to the Committee before standing up and saying, "Yes, the debt's paid off." And I believe the Department feels likewise on that.

This has been a history with Amtrak, a dropping—we would issue—for example, we'd have a strategic business plan from Amtrak, and they would have a $300 million item in there called "to be determined." We report to the Congress and say there's a $300 million hold here on "to be determined," and they need to be filled. And then Amtrak will come out with another plan, and the "to be determined" would shift around.

So I want time to review the 5-year plan. I have confidence that Mr. Gunn has put it together in a meticulous fashion and so forth, but I need a little time to look over this document.

Senator SUNUNU. Mr. Chairman, I'm pleased that we've had this testimony today. It's been thorough testimony and professional testimony. I don't think we've had as thorough a look at the system and what the next 5 years might look like, certainly not since I've been in Congress, which has only been 6 years.

But I must say, this is—at the end of 5 years, it's sort of the same structure, the same system, the same incredible and economically fantastic subsidies for certain long-distance routes. It really doesn't provide any fundamental change in the system. And while we may feel great about the management team that we have, I'm concerned that, you know, the bulk of the Congress is just going to look at this year after year for the next 5 years, put their finger to the wind, come up with the right number that seems to sort of enable them to go back home and say, you know, Amtrak's a good thing. I support it, and I push for an extra $100 million this year to make sure that we could sort of keep on track with this plan, but without addressing the implications, the fundamental implications of the way this is structured, these enormous cost commitments and debt service that's been saddled on the current management, and I'm not very optimistic.

Thank you, Mr. Chairman.

The CHAIRMAN. Mr. Gunn, you should be allowed the opportunity to respond. Please go ahead.

Mr. GUNN. Thank you, sir.

First of all, its $722 million worth of debt is paid off during this period.

I would just like to say that obviously there's a——

The CHAIRMAN. Would you repeat that again?

Mr. GUNN. I said during our plan——

The CHAIRMAN. Yes.

Mr. GUNN.—it includes the paying—debt-service principal is $722 million. In other words, the plan that we've given you includes paying off the debt that shows up in the——

Senator SUNUNU. You take it from $3.7 billion down to approximately $3 billion.

Mr. GUNN. That's still a lot of money.

But what I would like to say is—make a plea. You know, I view this from, as I said, a slightly different perspective than my compatriots here, and I have a—there's a sense of urgency that I feel, in terms of the physical conditions on the plant and equipment that we operate with. And it's clear to me that defining the plan for re-

form is going to take some time. It's going to be—it isn't going to happen quickly. And what I would say—the risk we run—and I think everybody agrees, we run some things that should be preserved. Now, I think they all should be, but that's my personal opinion.

The CHAIRMAN. You think—would you repeat that? You think that every route ought to be preserved.

Mr. GUNN. I said that's my personal opinion, that the national——

The CHAIRMAN. Well, your personal opinion matters when you are the head of the organization, Mr. Gunn. That's quite a remarkable statement.

Mr. GUNN. I believe there should be adjustments in them, but that the basic structure should be maintained.

But having said that, my plea is that the—we're going to lose the system if we don't have some stability over the next few years while this reform is put into place, whatever it is. So we do run the risk of losing the high-speed operation on the Northeast Corridor, as well as we run the risk of driving the operating deficit through the roof by having the equipment in bad shape.

So my plea is that we've got to focus on the reality of the situation as well as the goal of reform, and I—that is my plea, that we have to preserve—at least some of these services have to be preserved, and it is going to take money, and what is shown in this plan are the specific steps that you have to take to do that.

And it is—I think it's a conservative plan. I mean, I think it's—Ken will look at it, and I'm sure he'll have some comments. But it's a very, very pragmatic plan. It's not a flight of fancy. And we did try to cover all our bases, including repayment of debt.

So that's my plea.

The CHAIRMAN. Well, Mr. Gunn, we appreciate the work you're doing. We know it's very difficult. We think you have been very forthcoming about the realities of the difficulties that Amtrak faces.

But I must say, it's almost an oxymoron to say you want stability—*i.e.,* maintain business as usual—while reforming. I don't see how those two match up. Reform means eliminating waste and inefficiency, and if you want, quote, stability, which means, in your personal opinion, you want to keep every route and every practice, then I see nothing but an unending hemorrhaging of red ink.

So, look, I understand one of the reasons why you're having to say it, because you would alienate a certain constituency by canceling certain routes. But you've got to step up. You've got to step up and impose efficiencies in this organization. And to say that, quote, maintain stability—*i.e.,* status quo—and reform at the same time doesn't get it.

And I speak from a many, many year perspective on this issue and many, many, many hearings on this issue where we've had Amtrak people come before this committee saying that they want to maintain stability. Well, that stability has cost the taxpayers billions of dollars.

You can respond if you would like. Please.

Mr. GUNN. Yes, sir.

Well, my point would be that if you told me that by—at the end of 5 years, we're going to have all the long-distance trains gone, we could obviously take the steps necessary to realize the——

The CHAIRMAN. Let me just correct you again. I'm not saying eliminate all long-distance routes. I'm saying eliminate waste and inefficiency wherever it exists. And there's a compelling argument that when you're having to run a route that's subsidized $347 per passenger, it seems to me at least that should be scrutinized rather than tell a reporter, quote, "that's a political decision."

Mr. GUNN. Well, but whatever the route structure is going to look like, and forget whether it's all of them or just half of them or one train, to get those savings, you have to make a conscious decision that you're going to fund the termination cost. I mean, that's a fact of life that we may not like it, but it is a fact of life.

The CHAIRMAN. You have said in your testimony you will be having negotiations with labor, just like the airlines are having negotiations with labor, as we speak, to change a lot of the featherbedding rules that have come into being. You act like you are a helpless bystander, Mr. Gunn.

Mr. GUNN. No, not on——

The CHAIRMAN. You are not.

Mr. GUNN.—not on the work-rule issue.

Mr. SUNUNU. May I ask a question about——

The CHAIRMAN. Those are negotiated, Mr. Gunn.

Mr. GUNN. I agree that the work-rule issue is a priority for the board and for management. My point is——

The CHAIRMAN. Of which I think you are a part.

Mr. GUNN. But that's our priority. I agree with you, that those should be a focus. My point on the labor protection is, you don't—if the goal is to get rid of trains, I suspect that the negotiation to get rid of labor protection would be pretty tough.

The CHAIRMAN. The goal is not to get rid of trains; the goal is to get rid of waste, inefficiency——

Mr. GUNN. And that's——

The CHAIRMAN.—overlapping management to make it an operation. And to say, again—we're talking past each other, obviously, Mr. Gunn—but for you to say, it's a, quote, political decision and say that you won't—don't want to get rid of a single route means that you—it seems to me you're not committed to that proposition.

Senator SUNUNU. May I ask a question just at this point?

The CHAIRMAN. Go ahead.

Senator SUNUNU. I just want to be clear. Don't you believe that if you made a decision to eliminate a route that was being subsidized to the tune of $200 per passenger—do you have any concern that Congress would somehow refuse to provide the funding necessary to cover the 2-year or 3-year or whatever the termination cost might be? Do you have any reason to believe that having made a tough decision, that Congress wouldn't provide you with the appropriation necessary to fulfill contractual obligations?

Mr. GUNN. The history of this corporation is that that's happened, for whatever reason. I mean, when we—we're to the point, this month, where we had 3 days' worth of cash left, where our working capital, our ratio of—current ratio was .29. I mean, the fact of the matter is that we now have a—the Northeast Corridor,

which almost everyone seems to think should be preserved, is in a state where it needs massive amounts of capital to bring it back to a state of good repair. I mean, that's the fact. So——

Senator SUNUNU. But that doesn't really answer my question. My question was, what evidence do you have to believe that—if you made an important managerial decision, that Congress wouldn't provide funds to support that? And I understand that you have capital costs and these other costs, et cetera, but, you know, we've——

Mr. GUNN. You can't fund us in isolation. In other words, you don't fund a bit and a piece of the budget. That doesn't work that way.

Senator SUNUNU. That's my point exactly. So, you know, you make the decision, you have certain costs, certain termination costs, and you'd say to Congress, "I've made the tough decisions, I've enacted these reforms, and here's what it's going to save in the long-term, and here's what it costs in the short-term." I mean, I think that's among the most powerful arguments that you can make. But you've answered the question. I appreciate it.

The CHAIRMAN. I thank the witnesses. I'm sure we'll be seeing you again. Thank you very much.

[Laughter.]

The CHAIRMAN. The next witness is the Honorable David King, Deputy Secretary of the North Carolina Department of Transportation; Mr. John Winter, President of Harral Winner Thompson Sharp Lawrence; Mr. Hank Dittmar, who is the Project Director of the Great American Station Foundation; Mr. Alan Landes, who is the Senior Vice President of Herzog Transit Services; and Mr. Michael Pracht, who is the Chairman of Passenger Transportation Committee.

Please come forward.

I want to thank the witnesses for their patience. Obviously, this has been a very interesting hearing. So I'd like to begin with Mr. King, Honorable David King, who is the Deputy Secretary of the North Carolina Department of Transportation. Again, I appreciate the patience of the witnesses, and we'll begin with you, Mr. King. Mr. Secretary.

STATEMENT OF HON. DAVID D. KING, DEPUTY SECRETARY, NORTH CAROLINA DEPARTMENT OF TRANSPORTATION

Mr. KING. Thank you, Mr. Chairman.

My name is David King, and I'm representing 24 states who collectively comprise the States for Passenger Rail Coalition. We've been in existence for several years, and our mission has been to try to establish a Federal partnership for rail infrastructure investment that mirrors the Federal investment in other modes of transportation.

Collectively, our states have committed, in the past or in the future, up to $4 billion already, so the State contribution is already there. In the time allocated this morning, I'd like to make several points and then make a modest proposal, which I believe to be consistent with most of what we have heard as a group as we've talked to other stakeholders and most of what we heard earlier this morning.

First, there are numerous examples of successful partnerships between State DOTs and Class I railroads on rail infrastructure investment—those investments have been made with companies like Norfolk Southern, CSX, Burlington Northern Santa Fe, the Union Pacific, and so forth—for projects that benefit passenger rail primarily, but also have a significant freight benefit, and that is why the freight railroads have participated in those partnerships.

Second, there is a significant amount of business community support for the kinds of corridor investments that States are interested in. The Chicagoland Chamber has been very vocal and busy in the Greater Chicago area for the Midwest service that you probably are aware of that would connect Chicago with a number of hub cities in the Midwest, upper Midwest. And chambers such as Eugene, Oregon; and Cleveland, Ohio, have been very active and energized. And I'm very proud of the work of the Southeastern Economic Alliance, which is a 15-chamber-based group led by the Atlanta Chamber that has been very supportive of the kinds of corridor investments we want to make in the Southeast with the leadership of the Atlanta Chamber. These chambers and business leaders are involved because they think it's in their economic interest to be involved in supporting intercity rail passenger service as another mode to get around on the short-distance trips in the Southeast and nationally.

Third, there is a history of State DOTs being in the infrastructure business. As has been referenced earlier, we have collectively built an interstate highway system on a Federal/State partnership model. States know how to do project planning through the National Environmental Policy Act process, and you cannot underestimate the amount of time and effort it takes to go through that process in order to be ready to build projects that meet Federal environmental and community impact standards.

And we've got a number of projects which are ready to go today. A recent report by the American Association of State Highway and Transportation Officials documented over $17 million worth of work that needs to be done over the next 6 years.

Fourth, there's an economic case to be made for these corridor investments. And I should parenthetically say that while a lot of the discussion in the first part of the morning is about a national system, yes or no or how much, most State effort is focused on the corridor level. In my case, it's Atlanta to Washington. In the Gulf Coast States, it's Central Texas to Atlanta or Jacksonville. On the West Coast, I think those systems are obvious. And I've already mentioned the upper Midwest and the Chicago system. So we're really not talking about the national connectivity issues that you spent a good deal of time on this morning.

The economic case is that these are short-haul trips in the sub–400-mile market connecting, to use Mr. Mead's example, the "A"s and the "B"s, and the "A"s and the "C"s, and not necessarily the "A"s and the "E"s. In the case of the Southeast Corridor, the Atlanta-to–Washington market is probably an air market for most people. However, between Atlanta and Greenville-Spartanburg, between Greenville-Spartanburg and Charlotte, between Charlotte and Greensboro, and Raleigh and Richmond, you've got a number of trips that are not good air trips and are ideal rail trips.

Finally, there is public support. Poll after poll documents that. In one recent example, the Ohio State University poll found that 80 percent of all Ohioans favored developing high-speed rail. And, importantly, and this is remarkable to me, twice as many Ohioans favor high-speed rail development as those who favor expanding highways and airports.

Finally, our proposal, a modest proposal, and it may not pass Senator Hutchison's test of being bold enough, but in the interest of getting something on the table, we propose that the Swift Rail Development Act be reauthorized and extended in its reach to include a deployment category, authorizing funds for new infrastructure equipment and stations, using a combination of tax-credit bonds and general funds. We further propose that U.S. DOT set up a $500 million equipment pool that would allow an economic order of off-the-shelf high-speed rail equipment that is capable, fully compliant with the Federal Railroad Administration requirements, and a proven technology that will buy minutes and buy reliability and buy safety for us just as surely as improving track and signals will; that the U.S. DOT administer these programs based on economic viability, and the states are perfectly prepared to meet the economic test and be subjected to economic criteria; that those projects that would be proffered would be completed with their environmental and preliminary engineering work and that they have the support of the host railroads. And we think we can deliver projects in those categories.

Finally and quickly, we have in our written testimony, which I hope will be entered into the record, Mr. Chairman——

The CHAIRMAN. All will be, thank you.

Mr. KING.—suggested that the U.S. DOT be directed to develop mechanisms for the transfer of certain passenger terminals and associated rail facilities currently owned by Amtrak to shared access areas so that it would facilitate competitive proffering of proposals by multiple operators in certain corridors without blockages being—be able to put into the system via Amtrak's control stations. We would ask that the Congress direct U.S. DOT to develop a methodology to assess and allocate costs for public access to privately owned rail corridors, which is where we will be in the short-term—we will be sharing corridors with the private Class I railroads—and that we look at reform of liability in a surgical manner that allows us to control our cost of insurance.

All of those things set a context which allows a more efficient Amtrak, which is disciplined by the forces of competition, and we think will provide a better service and we could go shopping among Amtrak and other operators for superior service to what we have today.

Thank you, Mr. Chairman. We look forward to working with the Committee subsequent to today, hopefully to develop, based on the all the ideas that you've heard today, something that might allow us to move forward.

[The prepared statement of Mr. King follows:]

PREPARED STATEMENT OF HON. DAVID D. KING, DEPUTY SECRETARY, NORTH CAROLINA DEPARTMENT OF TRANSPORTATION

Mr. Chairman, my name is David King, I serve as Deputy Secretary for Transit in the North Carolina Department of Transportation and Chairman of the States for Passenger Rail Coalition.

States for Passenger Rail Coalition

The States for Passenger Rail Coalition is a grass roots organization of state departments of transportation. North Carolina is one of 24 states in the coalition. Our growing membership is drawn from around the country and includes states with existing passenger rail service as well as those in the planning and development stage. Large states and small states, we span the continuum of partisanship, varied interests and geography. A map of the Coalition members is attached. We are quite a diverse group and we are a national group. Our strength is that we are a bottoms-up initiative, created and supported by the states because we share a common goal.

Included for the docket for today's hearing is a copy of the States for Passenger Rail Coalition's National Passenger Rail Policy Statement, adopted August 25, 2002 and a copy of a January 27, 2003 letter from the Coalition to the Chairman and Ranking Minority Member that included recommendations for establishing an intercity passenger rail funding program as well as recommendations for Congress to consider in determining the ongoing operating funding needs for Amtrak.

Following the tragic events of September 11, 2001, many citizens had their first travel experience with our national rail passenger system and they were glad it was available. They also have first-hand knowledge that our national rail passenger system is in need of major capital investment in order to assure reliability and to have travel times that are auto and air-competitive. Rail passenger service is now a national security issue as well as a mobility and economic development issue.

One of the lessons learned over the past few years as we have endeavored to improve rail passenger service is the value of taking incremental steps to improve existing infrastructure. Many of our nation's bold new rail passenger initiatives have fallen by the wayside as economic analysis determined that they were not the best investment of public dollars, or when they could not muster the requisite political will to succeed.

By contrast the States for Passenger Rail Coalition can now point to numerous examples of public private partnerships that yield real-world results. Progress is being made through programs of State, local and private investments in:

- California, Washington State and Oregon in partnership with Burlington Northern Santa Fe
- Wisconsin and New York in partnership with the Canadian Pacific
- New York, Florida, Virginia and North Carolina in partnership with CSX Transportation
- Delaware, Ohio and North Carolina in partnership with Norfolk Southern
- Oregon and Illinois in partnership with Union Pacific

These are all very real projects that add capacity and reliability, and enhance the safety of our national rail network of freight and passenger services. The projects also provide employment and create jobs at a time when public investments are needed to energize our economy.

Not only are the Class I railroads now acting in their own enlightened self interest, increasingly our broader business leadership has joined the public efforts to improve the rail mode. For example, the Southeastern Economic Alliance (SEA) is formed of 15 chambers of commerce advocating for a business-oriented approach to high-speed rail development in order to accommodate our projected growth, and ensure the Southeast performs as a cohesive economic region.

The SEA has completed an independent analysis of the business case for high-speed rail development in the Southeast. Their analysis is consistent with the Federal *High Speed Ground Transportation for America* report and numerous state studies which concluded that public investment is necessary to upgrade existing infrastructure and that reliable, high quality, travel time competitive rail passenger service connecting cities with economic interests will allow operators of such services to make a profit.

A similar effort has been undertaken by The Chicagoland Chamber of Commerce, which has organized the Midwest Business Coalition for High-Speed Rail representing chambers in the nine states that are a part of the Midwest Regional Rail Initiative.

Grass roots organizations around the Country are beginning to coalesce in support of development of improved intercity passenger rail service. Examples include the Eugene Area Chamber of Commerce in Oregon that has developed their own report on the benefits of increase passenger rail service and its impact to the local business community. The Chamber has used this piece when visiting the Legislature and they have been active in spreading the word on the positive benefits for Eugene. The Cleveland Chamber of Commerce and other Ohio economic development groups are working with the State to analyze, in greater detail, the economic impact of constructing the Ohio & Lake Erie Regional Rail—Cleveland Hub system.

Our business leadership is not motivated because they are merely fans of rail transportation, nor do they simply advocate for more government. Rather, their impetus comes from a hard-nosed business analysis that our current transportation system has a serious weakness, and that weakness hampers our ability to compete in world markets.

States Are Ready To Move Forward, Now

I want to assure the Committee that many states are ready to begin implementing a high frequency, high-speed rail passenger network now.

States are making innovations in highway-railroad crossing safety, passenger equipment design and manufacturing, and in railroad signaling systems. States renovate existing and construct new multi-modal stations and help attract new development to our inner cities. States are making investments in commuter, intercity and high-speed rail systems that serve state, multi-state and national interests. States make these investments in concert with local communities and commuter agencies, with Amtrak and the freight railroads, and with adjoining states. However, the Federal Government should not expect the states alone to build a national high-speed rail system. States need Federal leadership and a strong Federal funding partner to more fully undertake this task.

Development of a high quality, high-speed intercity passenger rail network can help mitigate congestion. Development of high-speed rail transportation will help stimulate economic growth by creating new jobs and by increasing mobility. Development of a national system of high-speed rail is predicated on having a program of public-private investment that includes the active participation of states *and* the Federal Government.

Our State Departments of Transportation (DOTs) are experienced and capable of constructing large-scale projects. The DOTs, in partnership with the freight railroads, have the capability to plan and manage a major, new program of rail infrastructure improvements using existing relationships. No new laws would be required to implement this program.

Many of our member states have completed preliminary engineering and environmental work and are ready to begin projects now. Many States have available "shelf plans" for incremental high-speed rail development and are investing significant state and private funds now; but we need a viable Federal funding partner to continue and expand such efforts.

The *Intercity Passenger Rail Transportation* report recently released by the American Association of State Highway and Transportation Officials' (AASHTO) Standing Committee on Railroad Transportation (SCORT) fully documents state passenger rail development initiatives and activities. The AASHTO SCORT report identifies $17 billion in state sponsored intercity passenger rail projects needing funding over the next 6 years and $60 billion in needs over the next 20 years. The report also demonstrates that states are active participants in such projects, with over $4 billion invested or currently committed to these projects.

Investments in Rail Make Economic Sense

Our needs are not without an economic argument. For example:

The Ohio and Lake Erie Regional Rail—Cleveland Hub Study suggests that the rail system could create a $1 billion increase in Ohio property values and increase the state's annual income by $256 million.

An economic and fiscal impact analysis conducted for North Carolina reported that the investment to develop and operate high-speed rail in North Carolina would:

- Enhance tax revenues in an amount nearly equal to the construction cost outlay, with the majority of these enhanced tax revenues recurring.
- Operating revenues would exceed the total of operating and maintenance expenses thus providing a basis for profitable operation.
- Create 30,000 construction and 19,000 long-term jobs yielding billions in income over the useful life of the project.
- Help leverage and attract significant additional economic growth.

The Public Supports Rail Investment

While we do not recommend a program based on polling, it is instructive to consider the following recent data:

- A *Washington Post* survey indicated that a substantial percentage of Americans would increase Federal funding for improved rail passenger service.
- In a survey of ten major cities more than sixty-five percent of the respondents felt that investment in high-speed rail passenger service was an appropriate use of public monies.
- In a recent poll of rural, suburban and urban households in North Carolina and Virginia, the majority of the respondents believed that high speed rail would help reduce air pollution and reduce traffic congestion, and be more relaxing than travel by either automobile or air. Nearly seventy percent responded that they would use a high-speed rail service.
- A majority of residents of South Carolina indicated a favorable response for development of high-speed intercity passenger rail service.
- Seventy-seven percent of Wisconsin residents surveyed in a statewide poll stated they were likely to use the train if the planned nine-state Midwest Regional Rail high-speed network becomes available to them.
- An Ohio State University poll found that eighty percent of all Ohio adults support the state's efforts to develop passenger rail service, and twice as many Ohioans favored developing high-speed rail services than expanding highways and airports.
- A public opinion poll in New York State revealed that eighty-two percent of registered voters believe that having an improved and modernized intercity passenger train service throughout New York State is just as or more important than having good highways and airports. The same poll showed that seventy-seven percent of registered voters would support or strongly support investment of State funds to improve intercity passenger train service for trips of 75 miles or more.

The States for Passenger Rail Coalition Proposal

Support for Rail Transportation Security

The States for Passenger Rail Coalition support the rail transportation security provisions of the National Defense Rail Act, Senate 104. Already states are working with the Transportation Security Administration, the Federal Railroad Administration, Amtrak, the freight railroads and armed forces as well as state emergency response teams to identify threats, develop training and coordinated responses to protect our national security. The States urge the Congress to expeditiously adopt legislation to help address the security needs of the rail industry.

Support Modest New Capital Investment

In light of the substantial and long term intercity passenger rail funding needs highlighted by AASHTO and others, the States for Passenger Rail Coalition proposes that initial capital funding should be provided immediately to "ready to go" state sponsored projects that will demonstrate nationally the benefits of enhanced intercity passenger rail service.

To accomplish this, the States for Passenger Rail Coalition asks that the Congress amend the Swift Rail Development Act of 1994 (49 U.S.C. 26101 et seq.) and extend its authorization to include a deployment category and authorize capital funding for new infrastructure, equipment and stations.

The States for Passenger Rail Coalition recommends that Congress:

- Authorize $500,000,000 in tax credit bonds and $100,000,000 in general funds in Fiscal Year 2004
- Authorize $600,000,000 in tax credit bonds and $200,000,000 in general funds in Fiscal Year 2005
- Authorize $700,000,000 in tax credit bonds and $250,000,000 in general funds in Fiscal Year 2006

The Secretary USDOT would approve tax credit bonds projects that are economically viable, have completed the requisite environmental and preliminary engineering work, have the support of the host railroad and where non-Federal matching funds are available.

This re-authorization of the Swift Act would provide the means for the Federal Government to partner with the states and the freight railroads to make sorely

needed infrastructure investments. These large-scale construction projects require contract authority to enable multi-year programming. This program will help accelerate projects in states with emerging corridors where the planning work has not been completed.

Further, the States for Passenger Rail Coalition recommends that Congress:

- Authorize the USDOT to create a pool of twenty-five, Tier I compliant, non-electric, tilt-equipped trainsets with locomotives. The equipment pool would be acquired and administered in association with the states and it would provide a significant new public-private partnership opportunity. Authorize $500,000,000 in general funds to acquire and manage the equipment pool. States will be responsible for the on-going operations, maintenance and associated costs.
- Increase guaranteed funding for grade crossing safety improvements under Section 1103(c) to $30,000,000 annually for fiscal years 2004, 2005 and 2006. These funds would be in addition to the "Section 130" grade crossing safety program over which this committee has jurisdiction.
- Provide Federal funding to fully develop mechanisms for the transfer of passenger terminals and associated rail facilities currently owned by Amtrak into shared asset areas serving intercity passenger rail, commuter rail, local transit and other uses. A Federal agency such as USDOT or a consortium of Federal, state and local agencies could assume ownership. This would relieve Amtrak of the non-Amtrak operating costs associated with these facilities, provide for enhanced revenue-sharing opportunities and provide a financial basis to address capacity and efficiency improvements necessary for a world-class passenger rail system.

  Washington Union Station provides a good example where this approach makes sense. USDOT would be authorized $300,000 in general funds to fully develop mechanisms and future costs to implement this section.
- Direct the USDOT to conduct such studies as may be necessary to develop a method to assess and allocate the relative costs, impacts and public and private benefits, including those accruing to freight railroads, resulting from this program of infrastructure investments.
- Direct the USDOT to conduct such studies as may be necessary to develop a method to assess and allocate the costs of public access to privately owned freight rail facilities, taking into consideration the value of both the public and private investments in and use of the facilities.
- Liability is a major concern of all parties, and an equitable and fair solution is needed. Amend the Amtrak Reform and Accountability Act of 1997 (Pub. L. 105–134, Chapter 281, Section 28103) to cover all defendants. This action will protect the public while also significantly reducing insurance costs to the operators of commuter and intercity passenger rail services.

The States for Passenger Rail Proposal Brings Together the Interests of Many Diverse Groups

A new Federal program, in partnership with the States, of investment in improved passenger rail passenger service is consistent with:

- Secretary Mineta's principles to create an intercity passenger rail system that is driven by sound economics, fosters competition, and establishes a long-term partnership between states and the Federal Government to sustain an economically viable system.
- The National Governor's Association Rail Transportation Policy (EDC–16) which states that . . . "the most critical need is a new, separate, stable, and dedicated Federal funding program to fund capital investments—infrastructure and equipment—to maintain and enhance regional passenger rail service. . . ."
- The American Association of State Highway and Transportation Officials (AASHTO) Standing Committee on Railroad Transportation (SCORT) *Intercity Passenger Rail Transportation* report findings that investment in rail is justified, especially in corridors, and that . . . "most importantly, what is needed is a strong Federal-funding partnership."
- The American Public Transportation Association's principles for funding rail passenger service which state, in part, . . . "a similar commitment [to that made by the Federal Government in aviation and highways] is necessary in the rail passenger service industry, especially given national security needs, and the growing need to complement air and roadway service. . . ."

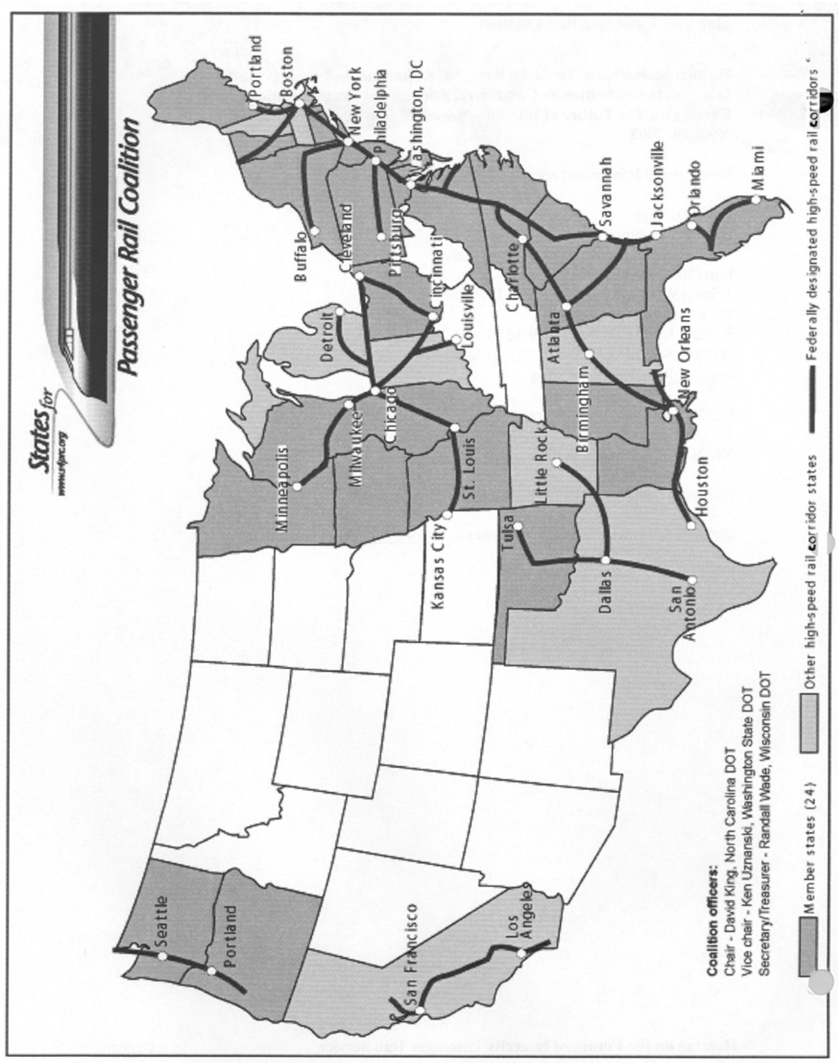
- The Association of American Railroads by partnering to make grade crossing safety improvements, advocating for liability reform, and calling for an independent and objective assessment of reasonable and customary fees in exchange for public access.
- The Coalition of Northeastern Governors (CONEG) policy statements on the need for a strong and consistent Federal partner in providing policy leadership and sustained funding for intercity passenger rail, and its report entitled *The Northeast and Mid-Atlantic States: Investors in Intercity Passenger Rail That Serves the Region and the Nation*.
- The U.S. Conference of Mayors, which has identified development of high-speed passenger rail service as a top priority.
- Amtrak President David Gunn's recent assertion that he planned to present the Administration and the Congress with a five-year capital plan that brings the railroad up to a state of good repair and which includes an appendix of state-led capital investments in improved intercity passenger rail.
- The High-Speed Ground Transportation Association's Principles for High-Speed Train Development to provide Federal financial support by . . . "preserving the existing network of passenger rail service and developing new services in partnership with state and local government, the private sector and Amtrak as appropriate in each corridor. . . ."

In addition to this new Federal state partnership to invest in improved intercity passenger service, the States for Passenger Rail Coalition strongly endorses the AASHTO Statement on Stability for Intercity Passenger Rail, adopted February 24, 2003. This statement calls on the Congress to provide short-term stability for at least two years by providing operations and capital funding required for Amtrak, and to provide leadership in the policy debate so that the long-term viability of our national rail freight and passenger system can be assured.

Taken together these legislative proposals form the basis for a new future for intercity passenger rail. We are proposing to achieve this future on an incremental basis, creating the pre-conditions for a competitive marketplace, allowing Amtrak to accelerate its transition to a true operating company, and strengthening the national transportation system.

Thank you for the opportunity to present these proposals.

SUPPLEMENTARY INFORMATION



STATES FOR PASSENGER RAIL COALITION—NATIONAL PASSENGER RAIL POLICY STATEMENT

1. Passenger rail service is essential to the nation

- An enhanced intercity passenger rail system is an important mobility alternative, especially for regional corridors, in the face of increasingly congested highway and aviation systems.
- The events of September 11 and their impact on transportation reinforce the importance of passenger rail service as an essential part of the national transportation network.
- States support investment in new passenger rail systems and incremental improvements in regional passenger rail corridors to expand ridership, with increased speeds, and additional frequencies on routes.

2. Federal funding in partnership with states is essential for passenger rail

- States have taken, and will continue to take, a lead role in the planning and development of new, expanded and enhanced regional passenger rail corridor services. However, the states cannot fully program and implement these systems without a Federal-state funding partnership similar to existing highway, transit and aviation programs.
- The most critical need in this partnership is a dedicated Federal funding program to fund capital investments—infrastructure and equipment—to maintain and enhance regional passenger rail service.
- Given a strong Federal funding mechanism, the states are willing to provide a fair cost-share for capital investment in new, expanded and enhanced regional passenger rail services.
- Some corridor services are expected to achieve operational self-sufficiency upon full implementation. At the same time, the states will need transitional operating support from the Federal Government while plans and projects are being built and during start-up periods for new services.
- Long distance train service provides interconnectivity among regional corridors and essential services to communities along the way. Federal participation in long-distance interconnected routes shall be 100 percent.

3. States need to assume key institutional roles in passenger rail development

- The states need to play a significant role in the implementation of any future Federal funding program. In particular, states seek a strong role in project selection and project management that builds on the expertise already developed in this area.
- States have partnered with Amtrak for the operation, development and financial support of existing corridor services. The states have a large stake in the successful restructuring of Amtrak, and need to be closely involved in these discussions.
- Partnerships also must be developed with the Nation's freight railroads to address their concerns.

STATES FOR PASSENGER RAIL COALITION
January 27, 2003

Hon. JOHN MCCAIN and Hon. ERNEST F. HOLLINGS,
Commerce, Science, and Transportation Committee,
Washington, DC.

Dear Senators McCain and Hollings:

The States for Passenger Rail Coalition (SPRC) represents 23 state departments of transportation and is devoted to promoting and enhancing intercity passenger rail service in the United States. This year will be critical for U.S. transportation policy as the 108th Congress will address both the reauthorization of the Transportation Equity Act for the 21st Century (TEA–21) and the reauthorization of Amtrak funding.

Our coalition strongly supports the inclusion of a multi-year funding program for intercity passenger rail equipment and infrastructure in the reauthorization of TEA–21. SPRC also seeks full and stable Federal funding to support a national, interconnected, intercity passenger rail network. The coalition seeks a continued Federal funding partnership to address passenger rail operating costs in recognition of the emerging budgetary crises facing virtually all states.

We suggest that Congress consider the following in developing an intercity passenger rail capital funding program for inclusion in the TEA–21 reauthorization package:

- The capital program should provide Federal funding to states for passenger rail infrastructure and equipment improvement projects.
- The intercity passenger rail capital funding program should be modeled on existing Federal-state funding partnerships in Federal highway, transit and airport programs. The Federal-state cost share should be consistent with other modes and not place passenger rail development at a disadvantage.
- The passenger rail capital program should be structured in a manner that will not adversely impact funding for the other existing modal programs.

- The program should be structured to provide a significant role for the states in such areas as project selection, project development, and project management.

Congress should also address the ongoing operating funding needs of a national and interconnected intercity passenger rail network. In doing so, we suggest Congress consider the following:

- Current Amtrak operations should not be allowed to suffer or collapse because of short term funding needs.
- Congress should provide at least $1.2 billion in funding for Amtrak during FY 2003 to prevent a short-term financial crisis that will adversely affect current operations.
- Congress should provide a Federal-state operating cost-sharing program for state supported routes as it structures the Amtrak Reauthorization package.
- This Federal-state operating cost-sharing program should include a transition period for states to make necessary budgetary adjustments.

These recommendations by the states to the 108th Congress are based on the recognition that intercity passenger rail development is an increasingly important strategy for mobility and economic development. An enhanced passenger rail system is an important mobility alternative for regional corridors in the face of increasingly congested highway and aviation systems.

The mobility provided by enhanced passenger rail service has significant state economic development benefits. Rail service provides increased regional access for state population centers and tourism destinations and supports downtown development around passenger rail stations. The introduction of passenger rail service provides an additional public transportation option for communities without commercial air service. The events of September 11 and their impact on transportation further reinforce the importance of passenger rail service as an essential part of the national transportation network.

Federal funding for passenger rail is needed to respond to real mobility needs identified by states in all regions of the country. In a survey of its members, the American Association of State Highway and Transportation Officials (AASHTO) has documented $17 billion in capital needs for state sponsored intercity passenger rail improvement projects over the next 6 years and nearly $60 billion in needs over the next 20 years. Many states have already completed engineering studies and required environmental documents. These projects are ready to proceed and only lack a Federal funding partner.

Virtually all Federally designated intercity passenger rail routes connect major city pairs in multiple states. From the public policy perspective, Federal funding is justified for interstate passenger rail transportation, much like the interstate highway system. Unfortunately, passenger rail is the "orphan mode" at the Federal level. There is no dedicated Federal funding program for intercity passenger rail like that which exists for highways, urban transit and airports. To help remedy this problem, the states are willing to pay their "fair share" for passenger rail development in a Federal-state partnership modeled after these existing Federal transportation infrastructure development and improvement programs. The Federal Government should continue to be responsible for projects of national interest that are beyond the financial means of individual states.

Adequate and stable funding for intercity passenger rail operations must be provided. In these times of budgetary constraint at the state level, there are limits to what states can contribute. It is important that Amtrak Reauthorization include explicit provisions for a Federal-state operating cost sharing program.

These recommendations only provide a broad outline of the Federal funding needs for intercity passenger rail development in the United States. The states wish to work closely with Congress as it proceeds with structuring the details of both TEA–21 and Amtrak Reauthorization.

Sincerely,

DAVID KING,
Chair,
North Carolina DOT.

KEN UZNANSKI,
Vice-Chair,
Washington State DOT.

RANDALL WADE,
Secretary/Treasurer,
Wisconsin DOT.

The CHAIRMAN. Thank you very much.
Mr. Winner?

STATEMENT OF JOHN H. WINNER, PRESIDENT, HARRAL WINNER THOMPSON SHARP LAWRENCE, INC.

Mr. WINNER. Yes, good morning, Mr. Chairman.

Thank you for inviting me to address the Committee today regarding the future of Amtrak and intercity rail services in the United States.

I believe that both freight and passenger rail transportation are vital to the U.S. economy. And I should point out that I use Amtrak's Northeast Corridor services regularly. And it has been my experience, as a passenger, that the Amtrak's train service there is very good.

Now, you've asked me whether there are alternatives to the existing structure of intercity passenger services in the United States and whether private companies would be willing and able to operate these kinds of services. And the short answer to those question is yes. One need not look outside the United States to see some of the alternatives. State and local governments have been providing commuter services using a wide range of public and private service providers.

But if you look beyond the United States, there's a variety of approaches to providing intercity passenger rail services, some of them relying on private companies, and some using State entities. In Europe, in particular, governments are facing the increasing costs of rail passenger transport by adopting new methods and structures to provide rail passenger services through private enterprise in a competitive framework.

Now, there are a lot of private companies that have experience and the skill needed to operate intercity passenger trains. For example, in the United States, major railroads—CSX, BN—there are a lot of them—they operate thousands of trains each day, and they're more than qualified to be private-sector operators of passenger services, and some of them are already doing it.

In addition to that, there are a lot of other private companies providing such operations. We'll hear from Herzog, who operates three services—could be four—here shortly.

There are a number of others. Connex, with some 30,000 employees and annual revenues of $2.5 billion, operates part of the EuroStar TGV train. Connex U.S. is part of a team that has recently won the bid to operate commuter services in Boston. And National Express Group is an example, with 30,000 staff and annual revenues of about $2 billion, operates in Australia and it also has bus operations in the United States. There are a lot of companies like this operating passenger service, including the Go Ahead Group, Virgin Trains, VIA, which is the largest urban transport provider in France. Together, companies like these operate thousands of trains every day, and I'm certain that many of them, given the opportunity to operate profitably, would be willing and able to provide intercity train services in the United States. This does not imply, of course, that all, or even any, U.S. passenger trains can be operated without government support of some type.

Now, Americans commonly ask me, "Why can't the United States have the kind of trains they have in Europe?" And they're often surprised to find that many European rail services are provided by these private operators I have just been talking about. One would think that in the United States, the home of free enterprise and the largest market economy in the world, private enterprise would be a preferred method for providing public services where it's economically feasible.

Now, most reform proposals involve obtaining greater value for money from intercity rail passenger subsidies through some form of contracting out or franchising train services. Rather than discuss all the different kinds of methodologies here, I would like to limit my discussion to the use of the private sector to provide these kinds of services.

There are lots of reasons to involve private-sector operators for intercity rail transport. Using private operators to replace Amtrak on some routes could have these benefits. First of all, there would be a more transparent determination of the costs and of the ridership of each of the services, so you could find the really uneconomical trains. Generally speaking, what we've found around the world is that private operators provide better service quality and they're more customer-oriented.

We have improved efficiency and productivity. Productivity improvements of something like 40 percent are common when we see these things. Lower costs. Cost reductions typically are in the range of 20 percent. Surprisingly enough, there is improved safety. Contrary to popular belief, private-company operation of train services generally results in a greater emphasis on safety. Even in the U.K., train safety measures have improved threefold from pre-reform periods. One of the major public benefits of private participation is the ability to employ private rather than public capital. Private entities take the risks and enter into their own debt.

U.S. intercity rail passenger services operate in a complex environment with a lot of stakeholders and competing interests. And while there are a lot of benefits from greater private-sector involvement, there are likely to be some problems, as well. We've already heard about the labor and union difficulties. There's a potential for increases in railroad retirement costs if employment shifts out of Amtrak into something else. That needs to be addressed. There's a much more complicated operating environment, which could impair rail freight services, and that will require some close consultation with the private freight railroads.

There's a potential challenge to private property rights for the infrastructure owners that will require some fairly delicate handling, because that is the basis of competition for the private railroads.

There's still a problem of coordinating an integrated national network, if there is one. It'll be more difficult if you employ a lot of different private operators. In a mixed public-private program, you have to work to get the incentives right. That's a problem they had in the U.K. where the incentive programs encouraged the wrong kind of behavior.

Amtrak has changed greatly since its founding in 1971. While it's met the objective of lifting the burden of passengers' losses from freight railroads, it's also required more than $26 billion in govern-

ment subsidies. If intercity passenger services are to continue, rolling stock assets must be replaced, infrastructure must be renewed, and all of these things represent a significant investment. And currently, too little money pays for too many services and too little investment.

A reform of Amtrak is overdue. The recommendations for restructuring developed by the ARC last year are a place to start. The approach talked about today by Transportation Secretary Jackson is also a very good place to start. More rapid involvement of the private sector is a reasonable course of action. One thing is certain; if you wish to rely on the private sector to own and operate intercity rail passenger services, I think many private companies would be interested in participating.

Thank you.

[The prepared statement of Mr. Winner follows:]

PREPARED STATEMENT OF JOHN H. WINNER, PRESIDENT, HARRAL WINNER THOMPSON SHARP LAWRENCE, INC.

Good day Mr. Chairman and members of the Committee. Thank you for inviting me to address the Committee regarding the future of Amtrak and of intercity rail passenger services in the United States. My name is John H. Winner. I am President of Harral Winner Thompson Sharp Lawrence, Inc., a management consulting firm specializing in the rail industry. We have worked worldwide with commercial railways, transit authorities, transport industry investors, industry suppliers, financial institutions, and governments on strategic, financial, and operational issues related to rail transportation. I have over 30 years experience in the rail industry and have managed rail passenger and freight assignments all over the world. My work has taken me to many countries in Western, Central and Eastern Europe, South America, the Asia-Pacific region, the former Soviet Union, the United Kingdom, Canada, and, of course, the United States.

I want to state at the start of my testimony that I believe that both freight and passenger rail transportation are vital to the U.S. economy. I use Amtrak's northeast corridor services regularly. It has been my experience, as a passenger, that Amtrak's Acela service is excellent. It provides what an intercity rail passenger service should—comfort, speedy service, reduced congestion and air pollution, safety, convenient mobility. Such services have the potential to reduce the need for more public investment in highways and airports.

The Committee has asked me whether there are alternatives to the existing structure of intercity passenger services in the United States and whether there are private companies willing and able to operate such services. The short answer to these questions is "yes." One need not even look outside the United States to see some of these alternatives: state and local governments have pursued many different ways to provide commuter services using a wide range of public and private service providers. Beyond the United States, we find a variety of approaches to providing intercity passenger rail services—some relying on private companies and some using state entities. In Europe, in particular, governments are facing the increasing costs of rail passenger transport by adopting new methods and structures to provide rail passenger services through private enterprise in a competitive framework.

Many private companies have the experience and skill needed to operate intercity passenger trains.

- In North America, all major railroads (CSX, BNSF, UP, NS, KCS, CN, CP), multi-billion dollar enterprises operating thousands of trains each day, are more than qualified private sector operators. Some of them already operate commuter services.
- Connex, a subsidiary of Vivendi, is one of the largest private passenger transport groups in the world with some 30,000 employees and annual revenue of some $2.5 billion. Connex-U.S. has recently won a bid to operate commuter services in Boston.
- VIA GTI is the largest urban passenger transport supplier in France and provides urban and suburban rail passenger services throughout Europe.
- National Express Group, which employs about 30,000 and has annual revenue of more than $2 billion, operates part of the EuroStar TGV service, intercity

passenger services in the U.K., urban and commuter services in Australia, and has bus operations in the U.S.

- FirstGroup, with some 45,000 employees and $2 billion in revenue, operates intercity, urban and suburban services internationally.
- Ariva, with 15,000 staff and revenue of about $2 billion, provides intercity and suburban services in the U.K. and The Netherlands.
- Stagecoach, with 32,000 employees and more than $2 billion in revenue, operates intercity services in the U.K. and has rail equipment leasing operations.
- Throughout the world, many other private companies provide intercity train services.

Together these companies operate thousands of trains each day. I am certain that many of them, given an opportunity to operate profitably, would be willing and able to provide intercity train services in the United States.

This does not imply that all, or even any, U.S. intercity passenger trains can be operated without government support. Indeed, very few intercity rail passenger services are privately operated and financed. But, public support of *privately provided* goods and services is common in market economies. Many public services are provided by private companies operating at a profit, including garbage collection, highway maintenance, sewer and water services, toll roads, air traffic control, and commuter-rail services. Private companies provide security services, build F–16s, build and operate mass-transit systems, and provide a wide range of other products and services that are often not profitable without the government as a customer. Public funding and private operation of intercity rail passenger services should not be considered unusual.

People commonly ask: “Why can't the United States have the kinds of trains they have in Europe?” They are often surprised to find that many European train services are provided by private companies. They would probably be surprised to find that European governments are working desperately to introduce private sector participation in intercity rail and freight services as a means to control costs, increase rail market share, and introduce the use of private capital to fund rail services. They might also be surprised to find out how much European taxpayers pay to subsidize some these services and the infrastructure over which they operate.

One would think that in the United States, the home of free-enterprise and the largest market economy in the world, private enterprise would be the preferred method for providing public services where economically feasible.

Private Operation of Intercity Passenger Trains

Intercity rail passenger services require a number of different activities—developing schedules, determining the price of a ticket, marketing and advertising the service, taking reservations, providing equipment, operating stations, providing on-board staff, driving the train, cleaning and repairing stations and rolling stock, . . . etc. Private train services can separate and group these activities many different ways. Private participation is often improperly lumped under the term “privatization,” but should generally be categorized across a range encompassing contracting, franchising, and privatization. The differences between categories may be defined by how many activities are performed by the private sector. Here is how I would define the activities within these categories.

Contracting

In contracting, private company is hired to perform some of the activities associated with providing public services, such as providing drivers, on-board staff, and perhaps station staff. Typically, scheduling, reservations, marketing, advertising, and most asset ownership remain with the government agency.

Usually, the service has an image which is separate from that of the operator and managed by the government agency. A contractor typically operates the train, provides and manages on-board and station staff, and may be responsible for cleaning stations and rolling stock, servicing equipment, collecting ticket revenue, and, perhaps managing some customer service functions (lost and found, help, complaints, etc). An operating contract covering these kinds of functions is typically short term—say two to four years. The length of the contract depends on startup costs such as employee recruitment, training, and any equipment or facilities needed. Contracts with larger startup costs are typically left for longer periods.

Contracts are competitively bid and the government agency pays the contractor for providing the specified services, so a low bid generally wins. A contractor generally takes on only limited ridership and transportation revenue risk. It is not being asked to build the service, just to operate it properly. Examples of contracting

include Herzog's operation of the Trinity Railway Express in Dallas, and the operation of MBTA commuter services by Connex in Boston.

Franchising

Franchising usually means that a private company provides operating services like a contractor, but will also provide and manage more of the soft aspects of train service—scheduling (though a minimum schedule may be specified in the franchise agreement), marketing and branding, advertising, additional customer service functions, station appearance, perhaps reservations, and the condition of rolling stock. The government agency retains overall ownership of the "right" to provide rail passenger services. In many cases, a franchise operator has some ability to set prices, if only for premium services. In some cases, the franchise will include a requirement to make some capital investment—rehabilitating stations, modernizing rolling stock, maybe even provide new rolling stock. A private franchise operator takes not only the risks associated with operating the service, as does a contractor, but also takes ridership and revenue risks, and the risks associated with investments.

Franchising usually has higher startup costs, more investments, and involves greater risks than contracting, so the length of franchise is likely to be longer. Generally, the greater the investment required, the longer the franchise term. In the U.K., franchises are typically for seven years, with options for negotiated two- to four-year extensions. In some cases, where the capital investment requirements were high, the franchise term has been longer—15 to 50 years. Some franchises have been sold; companies have actually paid governments for franchise rights. But often the franchise bid is negative—the franchise operator is paid to develop and operate the franchise.

U.K. train services, commuter and long-distance train services in Argentina are examples of franchising of train services.

Privatization

Privatization usually means that all or most aspects of an intercity passenger service are sold, including the "right" to define and provide the service and to determine the prices charged. The private operator has all the rights, obligations, and risks of any other private business, including the ability to fail or to make a lot of money. A private company usually must buy (or lease) the rolling stock necessary to provide services and has to arrange for access to, or ownership of stations, and all the other infrastructure needed. There is usually no guaranteed government payment for privatized intercity passenger service although private companies do contract with government entities to provide some services that are not commercially viable.

Examples of privatization of long-distance passenger trains include the sale of intercity passenger services in Australia; The Ghan and Indian Pacific trains are the most notable. In this case, only the services and equipment were sold, not the infrastructure. The Japanese National Railway was privatized in three vertically-integrated passenger services. The privatization process was quite complex and involved settlements with excess staff and transfer of prior debt. The three Japanese private rail passenger companies currently operate profitably.

There is room for a lot of overlap between these categories. In the case of Amtrak, the most likely alternatives fall between contracting and franchising. Amtrak's intercity passenger services are unlikely to be privatized—they lose too much money—although Amtrak could be liquidated, its assets sold and government could buy-in whatever passenger services it determined were in the public interest. [1]

Why Involve Private Service Providers

Amtrak is a private corporation under the current statute (but it is largely, though not entirely government owned). It is charged with operating intercity passenger services. It is considered by some to be a failure, by others to be the last chance for intercity rail passenger services. Over Amtrak's life, it has received some $26 billion in subsidies. Many are concerned that the subsidy has not been well spent.

Several proposals for reforming or changing Amtrak have been discussed. The Amtrak Reform Council (ARC), in a study authorized by Congress, published a comprehensive plan last year. Most reform proposals seek to obtain greater value-for-money from intercity rail passenger subsidies. Rather than discuss all the potential

[1] Many questions arise about what happens to Amtrak's operating rights on private freight railroads in this case. It should be noted that many state governments and local communities have negotiated access arrangements with private freight railroads for the operation of commuter services without recourse to Amtrak's rights.

reform methodologies here, I will to limit my discussion to the use of private companies to provide such services.

Many benefits arise from the involvement of the private sector in intercity rail transport. Generally, as the use of private companies moves from simple contracting towards franchising, more activities come under competitive pressures and the benefits increase. These benefits do have real impacts. Using private operators to replace Amtrak operation of some or all of its services could have these benefits:

Greater Transparency

Competitive tendering provides transparent determination of train costs. The most uneconomic services are easily identified and eliminated, reducing subsidy costs. This usually results in better choices about what services to provide and often a better split of payment responsibility between customers, and local, state and Federal Governments.

Improved Service Quality

Private companies are usually more sensitive to market and customer requirements. Service quality and ridership typically increases. Ridership increases in the U.K. were significant (up by about 36 percent since the start of reforms) after decades of decline.

Improved Productivity and Reduced Costs

Competition tends to drive down costs. Increased patronage on the best services, elimination of the worst services, better use of assets and resources, and the use of fewer and less expensive employees all tend to reduce costs and increase productivity. On average, cost reductions of around 20 percent from all sources are typical, but results vary greatly. Productivity improvements are generally greater, in the range of 35 to 40 percent.

Improved Safety

Contrary to popular perception, safety is not typically sacrificed as private companies become involved in passenger train services. Private train service providers are usually under increased safety scrutiny and are at least partially privately insured for many safety-related issues—so a lack of safety costs them money. In the U.K., notwithstanding the adverse publicity from a few major accidents, rail passenger safety has improved by a factor of three since reforms in 1994; U.K. rail services are now among the safest in Europe. Safety improvements have also been recorded in Japan and Australia.

Increased Use of Private Capital

Finally, longer-term agreements (either contract or franchise) permit greater use of private capital for providing assets for passenger services, particularly rolling stock. Debt associated with such assets is taken on by private companies and investors, rather than by government.

What Problems Might Arise?

U.S. intercity rail passenger services are operated in a very complex environment with many stakeholders and competing interests. While there are many benefits from greater involvement of the private sector, some difficulties are also likely:

Labor Dislocations

Competition for contracts and franchises will improve the productivity of intercity passenger services. Work rules are likely to be different; wage rates for some activities may be lower. Unless passenger services are increased, fewer employees will be required. Employees and railway labor unions are likely to resist, disrupting service and reducing ridership. Many governments have acted to reduce the impact of outsourcing on employees by guaranteeing incomes for existing employees. Such guarantees can be expensive.

Increased Railroad Retirement Costs

Amtrak and its employees participate in the railroad retirement program, the special rail industry version of social security. The program is already considerably more expensive than social security for employers. A significant reduction in the number of employees involved in passenger services would increase the contributions needed from private railroads. Private railroads would likely want to be relieved of these increased costs.

Increased Complexity in Managing Infrastructure

The operation of rail services is a complex business involving thousands of delicate tradeoffs between investments and operating decisions and day-to-day manage-

ment of the balance. Coordinating the business is difficult (as evidenced by the trouble the industry had in absorbing mergers and dealing with weather-related problems). While some rail lines already have multiple operators, additional *new* operators could further complicate operations, disrupt freight services, and cause harm to railroads and the public. Individual rail freight carriers may seek some assurances that they would not have to deal with many different private operators. This could complicate competitive bidding practices.

Limited Infrastructure Capacity

Since deregulation in 1980, private freight railroads have worked diligently to match assets and operating costs to business levels, but they continue to have had difficulty earning their cost of capital and attracting investors. One result is significant pressure to reduce railroad investments. On many railway lines, available capacity is closely matched to the amount of traffic. One of the expected benefits of using private companies to operate passenger services is to make those services more attractive, thus increasing intercity passenger traffic. But, some railway lines will not have sufficient capacity to permit additional passenger trains without affecting freight services. An increase in the number of passenger trains should be accompanied by offsetting investment to increase line capacity or freight service will deteriorate.

Potential Challenge to Property Rights of Infrastructure Owners

Private railroad companies are concerned about being required to permit additional operators on infrastructure they have built and maintain for their own services. There is concern that the precedent of being forced to give a private operator access to their infrastructure will reduce their ability to prohibit others from accessing their lines. The ability to control access to their private network is essential to maintaining profitability. This problem should be addressed if private railroads are to agree to private operation of passenger services across their lines.

Liability Issues

Currently, Amtrak indemnifies private railroads from some of the significant liabilities associated with the operation of intercity passenger trains. Any use of private operators should address these liability issues.

Disintegration of Network

Introducing a number of private companies into the national rail passenger system, either as contractors or as franchise operators, could make development and coordination of an integrated national network difficult. Setting up contracts for and coordinating services between many operators is a difficult task. Such a system can sacrifice flexibility in many ways (for example, moving equipment between services, now quite easy, is more difficult when it must be negotiated between private operators). If an integrated national network is desired, a national reservation system should be maintained (though that, too, can be contracted) and a government body responsible for developing strategy and planning is likely to be necessary.

Should Amtrak Be Changed?

Amtrak has changed greatly since its founding in 1971. While it has met its objective of lifting the burden of passenger losses from freight railroads, it has also required more than $26 billion in government subsidies. Amtrak covers only about 70 percent of its operating costs from revenue. In the future, many of its rolling stock assets must be replaced and northeast corridor infrastructure must be renewed and upgraded to take advantage of the high-speed train technology used in Acela services. The investment needed to maintain and renew Amtrak's assets will be significant—billions of dollars. Currently, too little money pays for too many services and too little infrastructure investment. Amtrak, with its current structure, cannot fix these problems.

Faced with burgeoning financial requirements, the Committee has wisely decided to reexamine U.S. passenger rail service, including what services should be provided, how they should be funded, and how they should be provided. I have outlined options for providing passenger service. A range of viable alternatives to Amtrak current structure are used in the U.S. for commuter rail services and internationally for a full range of metro, commuter and intercity rail services. I have also shown that many companies including Connex, Herzog, and some U.S. freight operators already provide some passenger rail services. Many other firms are active in Europe, Australia and other parts of the world.

The Committee has a choice between trying to improve the efficiency of Amtrak within the current structure, or adopting a new structure that harnesses private enterprise and competition to a greater degree. The private enterprise/competition al-

ternative has the potential for significant cost savings and better customer service. But, by increasing transparency and removing many decisions from the political sphere, it would likely spark changes that have political as well as economic consequences. Key among these are the potential for reduced employment in the intercity passenger rail sector, and increased complexity in interactions with private railroads. The "improve-Amtrak" alternative would give government greater control over politically-charged issues such as railway employment and route adjustments but would have less potential for efficiency improvement.

Amtrak was designed in the last century on the model of a European-style monopoly state railroad. It would not be designed the same way now. Many governments have come to realize that private sector participation in intercity rail services can have great benefits. Today, even European governments are reforming their monopoly state-owned rail systems and introducing competition in an effort to improve rail market share and productivity, and to reduce the demand on public resources.

Reform of Amtrak is overdue. The recommendations for restructuring Amtrak developed by ARC are certainly a place to start, along with the similar approach outlined today by Deputy Transportation Secretary Jackson. More rapid involvement of the private sector is a reasonable course of action.

One thing is certain: if you wish to rely on the private sector to own and operate intercity rail passenger services, many private companies will be interested in participating.

The CHAIRMAN. Thank you very much.

Mr. Dittmar?

STATEMENT OF HANK DITTMAR, CO-DIRECTOR, RECONNECTING AMERICA

Mr. DITTMAR. Mr. Chairman, thank you for the opportunity to appear today.

I'm Hank Dittmar, Co-Director of Reconnecting America, which is an independent initiative to define a new national approach to intercity travel in this new century. We believe that passenger rail can play a significant part in our Nation's transportation system if we redefine the role that intercity rail plays in that network, we provide stable levels of capital funding, create incentives for connecting our separate air, rail, and bus networks, and remove regulatory barriers that prohibit coordinated planning, integrated approaches to delivering intercity transportation services.

When Amtrak was created as a publicly owned, private corporation in 1971, it was saddled with an impossible set of conditions. These have been outlined by previous witnesses. On top of these familiar problems is a problem not unique to Amtrak, the failure of United States transportation policy and practice to approach transportation service delivery in a network manner. Each mode—air, rail, bus, and automobile—is presumed to operate independently and to compete with one another for customers and scarce resources. The failure to network the transportation system with both public and private components is increasingly leading to system and market failures within each industry. These failures are increasingly threatening continued improvements in our economic productivity.

Finding a solution to Amtrak's dilemmas involves tackling this problem head-on. All other solutions are suboptimal at best involving only damage control. Whether private entities or quasi-public entities operate Amtrak, or whether infrastructure and operations are separated is likely to matter little unless a fundamental shift in the role of passenger rail is also accomplished in the context of

the ongoing rationalization of the airline industry and of freight transportation.

The elements of a solution are beginning to emerge across the country. As States are taking on partnership roles in intercity passenger rail, cities and airport authorities are creating travel ports linking air, rail, and bus into one convenient facility, and private operators are experimenting with inter-modal code sharing, airport express-bus operations, and integrated rail/bus scheduling. The next step is to take these promising examples and build a coherent Federal policy framework that allows a replication at the national level. That policy, with respect to passenger rail, should move toward a national network of short- and medium-distance routes interconnected with intercity bus and aviation for the long-haul trips.

The map that I showed there plots—we actually decided that in the midst of debate over structure, somebody ought to look at actually where travel demand is, so we went to the 1995 American Travel Survey and plotted all intercity travel between city pairs. And we found—also having analyzed the official airline guide, we found that about half of all intercity travel is under 500 miles in length and that a lot of the biggest demand corridors are actually demand corridors that can be reasonably served by intercity travel, intercity rail, if it's focused on the 100- to 400-mile distances.

So we believe that the proper role for rail is to build on these State partnerships that Mr. King spoke about and to focus on making inter-modal connections between rail and bus at airports and at downtown travel stations.

And we've also submitted with the testimony, Mr. Chairman, an analysis of the 54 top airports in the country and the reality and the possibility of making inter-modal connections between bus and rail at each of those airports.

The key actions to make this kind of national network a reality are the following. First, as I said, we need to focus intercity rail primarily on short- and medium-distance routes, and we believe a national network can be devised that meets Senator Hutchison's concerns of being a national network, but that also meets our concerns of operating efficiently in the market where rail does the most good. We believe Congress should create a dedicated capital program making these kinds of service improvements, with funding provided through States who partner with the national operators.

Second, we should provide for an essential transportation service program. The same debate that we've heard earlier today about the costs of providing rail service in less dense parts of the country rages every time we talk about the essential air service program, and raged back in the fifties when we talked about connecting our interstate highway system. Let's just acknowledge that, in fact, there is a level of connectivity that people need, but let's operate it in an inter-modal manner, and try to do so in a way that provides service to the less dense parts of the country in the most efficient manner.

Third, we believe we can create a last-mile inter-modal connections program which would provide funding for making that difficult last mile or two miles take place. This funding would be available to local entities, State entities, and it could be provided

from a number of different inter-modal sources to really focus on making the connections between freight rail and passenger rail in key corridors, making the connections between airport and rail and bus at key travel ports.

Finally, we should move to eliminate barriers to inter-modal thinking in all of our legislation, requiring, for instance, aviation master plans to take account of surface transportation needs, opening up for competition not just for the provision of rail service, but for code-sharing between bus and rail and between airport and rail as is done in Europe. And this may require legislation to empower this with the Surface Transportation Board.

Mr. Chairman, thank you for the opportunity to be here today. Intercity passenger rail is an essential part of a forward-looking national transportation policy. At the same time, we need to reform the way we approach passenger rail, just as we need to rethink the way we approach other transportation modes. An authorization that provides stable multi-year capital funding, promotes partnerships with States and private entities, creates incentives for inter-modal integration with intercity bus and aviation, and refocuses Amtrak on primarily serving a national network in short- and medium-distance travel would be a big step in the right direction.

[The prepared statement of Mr. Dittmar follows:]

PREPARED STATEMENT OF HANK DITTMAR, CO-DIRECTOR, RECONNECTING AMERICA

Chairman McCain and members of the Committee, thank you for the opportunity to appear today to discuss Amtrak, and the future of passenger rail in this country. I am Hank Dittmar, Co-Director of Reconnecting America, an independent initiative to define a new national approach to intercity travel for this new century. We believe that passenger rail can play a significant part in our Nation's transportation system, if we redefine the role that intercity rail plays in that network, and if we provide stable levels of capital funding, create incentives for connecting our separate air, rail and bus networks together, and remove regulatory barriers that prohibit coordinated planning and integrated approaches to delivering intercity transportation services—both passenger and freight.

Intercity passenger rail can play several important roles in an integrated long distance travel network: it can relieve airport and highway capacity in congested corridors, it can provide an important alternative in case of system disruption, and passenger rail is more energy efficient and climate friendly than either short haul air transportation or travel by automobile. The public supports an expanded intercity rail program. A 2001 national survey by the United States Conference of Mayors found that 69 percent of those polled supported an expanded higher speed rail program in the Nation. It is ironic, though, that even as support for intercity rail grows, and its importance to the Nation is increasingly recognized, Amtrak's future seems less secure than ever. The reason goes back to Amtrak's creation.

Amtrak was never meant to succeed, and it has fulfilled that expectation. When Amtrak was created as a publicly owned private corporation in 1971, it was saddled with an impossible set of conditions. These conditions included:

- An expectation that it could operate without public subsidy, something the private railroads had failed to do with passenger service, and something no passenger railroad in the world has succeeded at;
- An inherited set of routes that served the major population centers of the 1880s, and that the private railroads had failed to succeed with, once lucrative mail contracts were transferred to the airlines;
- A political expectation that all of the cities on the network would continue to receive service, regardless of population density;
- A franchise allowing Amtrak to operate on freight railroad rights of way at incremental cost, something the private railroads believe causes them to lose money on each Amtrak train;
- A board that often lacked the necessary expertise to support the Corporation's challenging mission;

- Annual appropriations battles for general fund revenues for both capital and operating uses, placing them at a severe disadvantage when compared with aviation, highways and transit, all of which enjoy the protection of a trust fund and multi-year funding.

On top of these familiar problems is a problem not unique to Amtrak: the failure of United States transportation policy and practice to approach transportation service delivery in a networked manner. Each mode—air, rail, bus, automobile—is presumed to operate independently, and to compete with one another for customers and scarce resources. The failure to network the transportation system, with both public and private components, is increasingly leading to system and market failures within each industry, and these failures are increasingly threatening continued improvements in our Nation's economic productivity.

Finding a solution to Amtrak's dilemmas involves tackling this problem head on. All other solutions are suboptimal at best, involving only damage control. Whether private entities or quasi-public entities operate Amtrak, or whether infrastructure and operations are separated is likely to matter little, unless a fundamental shift in the role of passenger rail is also accomplished in the context of the ongoing rationalization of the airline industry and of freight transportation.

That we are experiencing a crisis in intercity transportation at this time can be demonstrated by citing a few examples:

- The continuing problem of metropolitan congestion, resulting from the concentration of commute travel on the Interstate network, threatening its viability for the intercity transportation of passengers and freight;
- The ongoing decline in the number of airline passengers and the related series of airline bankruptcies, resulting in a restructuring of the hub and spoke system in a way that leaves many small and medium sized cities with little or no air service. According to the Air Transport Association, air travel under 250 miles is down over 25 percent, trips between 250–500 miles are off 15 percent through the second quarter of FY 2002, while longer trips are off less than 5 percent.
- The continuing high levels of subsidy for Amtrak's long distance trains, along with a crisis of unfunded infrastructure on the Northeast corridor.
- The shrinking of the railroad network, and the finding by the Surface Transportation Board since its founding in 1996 that the private railroad industry has failed to make back the cost of capital in a highly capital intensive industry.

These are not new problems, but they are reaching a tipping point where government action is needed to ensure stable and reliable interstate commerce. I do not believe that the proper response is a series of continued episodic bailouts of Amtrak, the airlines, and the road industry, however. Rather, the country needs to integrate our systems and rationalize the market through a combination of: continued deregulation, removal of barriers to intermodal investment, dedication of capital resources, and a new vision for intercity travel the scale and scope of President Eisenhower's Interstate system. This time, instead of routes within a system, it should be connections between the systems.

Unless this happens, many cities will be cut off from the long distance travel network, forcing more long distance trips onto highways and further degrading the performance and reliability of that overstressed system. Reliable freight transportation enabled improvements in logistics and the creation of the just in time manufacturing system. These developments have been key to the large gains in productivity that have enabled economic growth over the past two decades.

These gains in productivity are being eroded as highways become more congested, especially in corridors where highway capacity cannot be added, as airport congestion and airline restructuring erode both the performance and the accessibility of the aviation system, and as a lack of reliable connections between ports, airports, highways and rail networks in metropolitan areas diverts freight onto highways, rendering its on-time arrival less and less predictable.

The elements of a solution are beginning to emerge across the country as states are beginning to take on partnership roles in intercity passenger rail, cities and airport authorities are creating "travelports", linking air, rail and intercity bus into one convenient facility, and private operators are experimenting with intermodal code sharing, airport express bus operations, and integrated rail-bus scheduling. The next step is to take the promising examples that are emerging, and build a coherent Federal policy framework that allows their replication at a national scale.

Some of the promising developments that are emerging around the country include:

Innovations In Surface Transportation Modes: The distance from 100–400 miles is the most effective market for intercity bus, commuter rail and intercity rail. When airport access, waiting, security and transfer times are taken into account, bus and rail become cost and time competitive within this range. Three kinds of markets exist for rail and bus in these distances: for airport access in lieu of an auto trip, from city center to city center in substitution for an air journey, or to substitute for the spoke portion of a hub and spoke journey or for an auto trip.

Across the country we have seen several success stories for intercity rail in these kinds of markets. They stand in marked contrast to the overall performance of intercity rail, and typically they involve partnerships between Amtrak and the state, wherein the state invests in equipment, track and station improvements and provides service subsidies. For example, the recently inaugurated service between Boston and Portland, Maine created a new rail market compensating for a loss of airline seat capacity from Portland of 26 percent from 2000–2001.

Other partnerships are occurring on the West Coast. In California, increasing rail service on the Capitol Corridor rail line—to nine trips each way daily between Sacramento and Oakland, CA—increased ridership 40 percent between 2000 and 2001 and freed up both air and highway capacity. Capital Corridor ridership exceeds a million riders a year now. More Amtrak service improvements supported by the State of California resulted in record ridership levels on other California rail corridors. The California experience also points up the value of intercity bus links with rail, where buses are scheduled to meet trains to transport passengers to communities not reached by the rail network.

Another important step is improved equipment and service quality. Introduction of the sleek Talgo trains in the Pacific Northwest in 1999 boosted ridership between Seattle and Portland and reduced travel time by more than a half-hour. The state-railroad partnership (the states of Oregon and Washington and Amtrak and BNSF Railroad) is planning steady improvements to track and terminals to increase speed and frequency with the goal of carrying quadrupling ridership from the 2001 level of 565,000 annually by 2016.

Turning Airports into "Travelports": The idea is to turn airport terminals into *travelports* where rail, bus, and urban transit would be added to the traditional mix of aviation, parking and rental cars. By making selected improvements to provide more reliable service options via other modes of travel for short- and medium-distance passengers, airport capacity will be freed for the higher-value, longer air trips. This kind of system is also more redundant, in the positive sense that travelers are presented with more options when regular service in a single mode is interrupted. A more redundant system is also an investment in economic security to ensure continued movement in the face of natural or man-made disasters. The value of this was clearly shown in the Northeast Corridor in the hours and days following the September 11 disaster; many studies also documented the ability of rail transit to provide continued service in the wake of the California Loma Prieta and Northridge earthquakes.

This solution also provides a way to address the revenue problem airlines confront as business travelers respond to declines in service by seeking low fare, no frills carriers by providing an increase in value. There is still a place for carriers that provide services that people value at a higher price. The only question is how much these services can take advantage of intermodal integration. Linking European planes with trains has been focused on business travel markets, like Frankfurt-Stuttgart or Paris-Brussels. By offering downtown access on fast train connections, airlines can charge high-yield fares for high-quality service, about the only alternative to today's focus on low fare, low yield strategies.

Conventional wisdom says the European experience cannot be replicated here, because distance between cities is greater, and because it is too difficult to make the air rail connection happen. We looked at intercity travel in the United States and found the distance between most metropolitan travel markets is within that range. For instance, the distance from Chicago to Detroit is 284 miles, from Los Angeles to San Francisco is 400 miles, Portland to Seattle is 187 miles, from Dallas to Houston is 250 miles, and from Miami to Orlando is 234 miles. The fact is that half of scheduled commercial air trips are less than 500 miles and almost that many are less than 400 miles in length.

In fact, innovative airport rail and bus connections are being made, and we have begun at Reconnecting America to assess the potential at key airports around the country. Table 1 is an evaluation of the potential for connecting the surface rail and

bus networks with the aviation network at 54 key airports around the country.* Our analysis reveals that it is feasible, and that many cities are in fact trying to make the connection, despite numerous institutional, financial and legal barriers. A few examples serve to illustrate the very real potential.

- Newark International Airport: the Newark Airtrain connects the airport with NJ Transit and Amtrak's Northeast Corridor at a new Newark Airport station, where ticketing and check-in facilities are available. Continental and Amtrak are now code-sharing.
- Ted Stevens International Airport, Anchorage: a new station and covered pedestrian connection has opened recently between the airport and the Alaska Railroad.
- Burbank Municipal Airport: the Burbank Airport is directly served by the Metrolink Commuter Rail, with ten daily trips and the Amtrak's Pacific Surfliner with four daily trips. Amtrak's Coast Starlight passes through the station but does not stop.
- San Francisco International Airport, where a four station of the BART regional rail system to the airport will terminate in a joint BART and Caltrain commuter rail station at the airport. The station, which will open in late June 2003, will also accommodate a future high-speed rail line which is on the statewide ballot for approval this November.
- Baltimore Washington International Airport: a light rail line from Baltimore directly serves the terminal, and a bus shuttle connects with the BWI rail station, which is served by Amtrak and the MARC commuter service. This is one of the fastest growing stations in the Amtrak system.
- Key West International Airport, Florida where an intermodal terminal connects air service with Greyhound bus service and with an Amtrak thruway bus. There are some 21 air bus connections in the country, but many airports actively discourage bus terminal facilities.

In addition to these examples, airport intermodal projects are in the planning and development stages at Chicago's O'Hare International Airport, with a commuter rail and possible Amtrak connection and a direct high quality transit express connection in the works; at Providence's T.F. Green Airport, with a combined rail station and rental car facility, and at Miami International Airport, where an intermodal station is planned. Notably, Dallas/Fort Worth International Airport, following the success of the Metroplex's light rail and commuter rail investments, is planning to connect both systems directly into the airport. And our discussions reveal that there is some active planning around this concept at most if not all major hubs.

The key actions needed are the following:

- *Focus Intercity Rail Primarily on Short and Medium Distance Markets:* Recognition that the restructuring of the airline hub and spoke system away from shorter distance spokes creates an opportunity for intercity and commuter rail and intercity bus to serve markets between 100–400 miles. Amtrak should cease to be primarily an operator of long distance train routes, and should instead focus on the short- and medium-haul markets where it can be competitive with both highway and air travel. Two interesting examples of underserved markets for passenger rail are in the Southwestern United States, where the Los Angeles to Las Vegas corridor and the Phoenix to Los Angeles market are prime candidates for rail service. Exhibits 1 and 2 depict the densest markets for intercity travel in the United States with two threshold levels, according to a GIS based analysis of the American Travel Survey conducted by the Center for Neighborhood Technology. Congress should create a dedicated capital program for service improvements in intercity corridors linking city pairs under 400 miles that serve markets in excess of a minimum threshold of total one-way trips per year by all modes. Funding could be provided to states on a matching basis to encourage the creation of partnerships between Amtrak and state governments.
- *Provide for An Essential Transportation Service Program:* In order to create a truly national Interstate Highway Program, as well as a National Plan of Integrated Airport Systems, Congress has always subsidized transportation facilities and service in less dense corridors with funds derived from more densely populated areas. Such subsidies have been justified in terms of equity, in terms of the economic benefit to smaller communities, and in terms of national connectivity. They have also been widely criticized for economic inefficiencies,

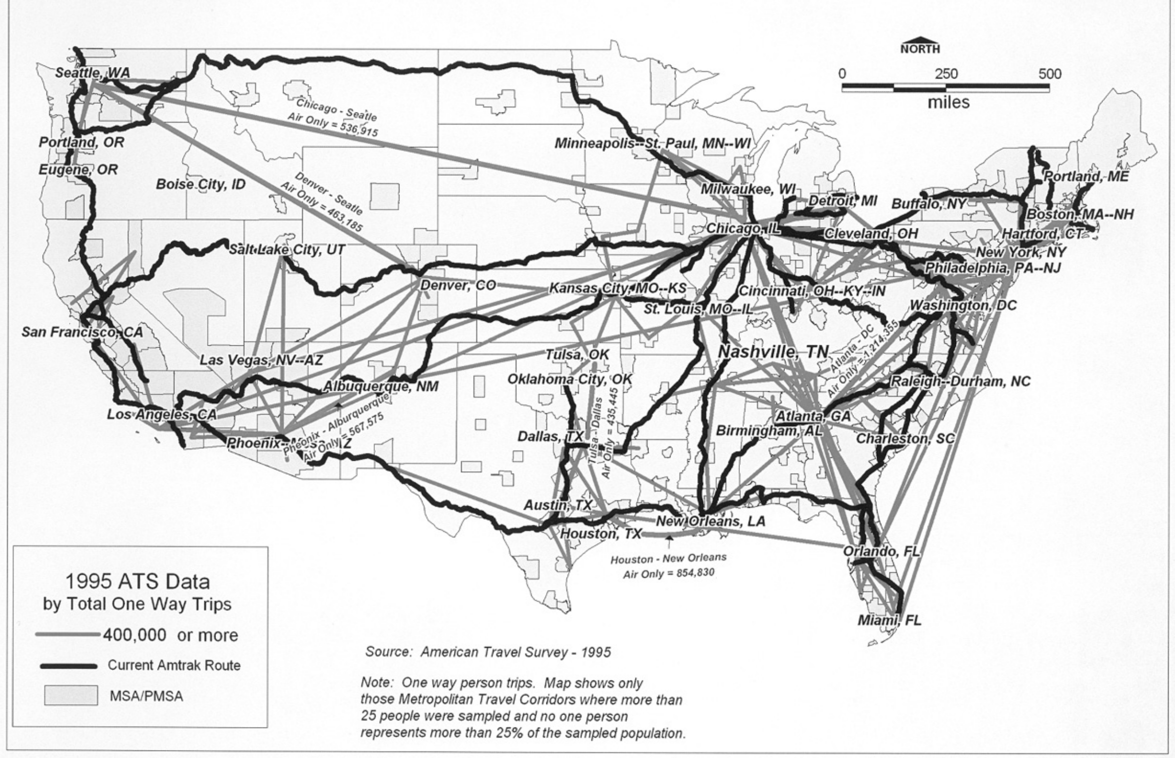
*The information referred to has been retained in Committee files.

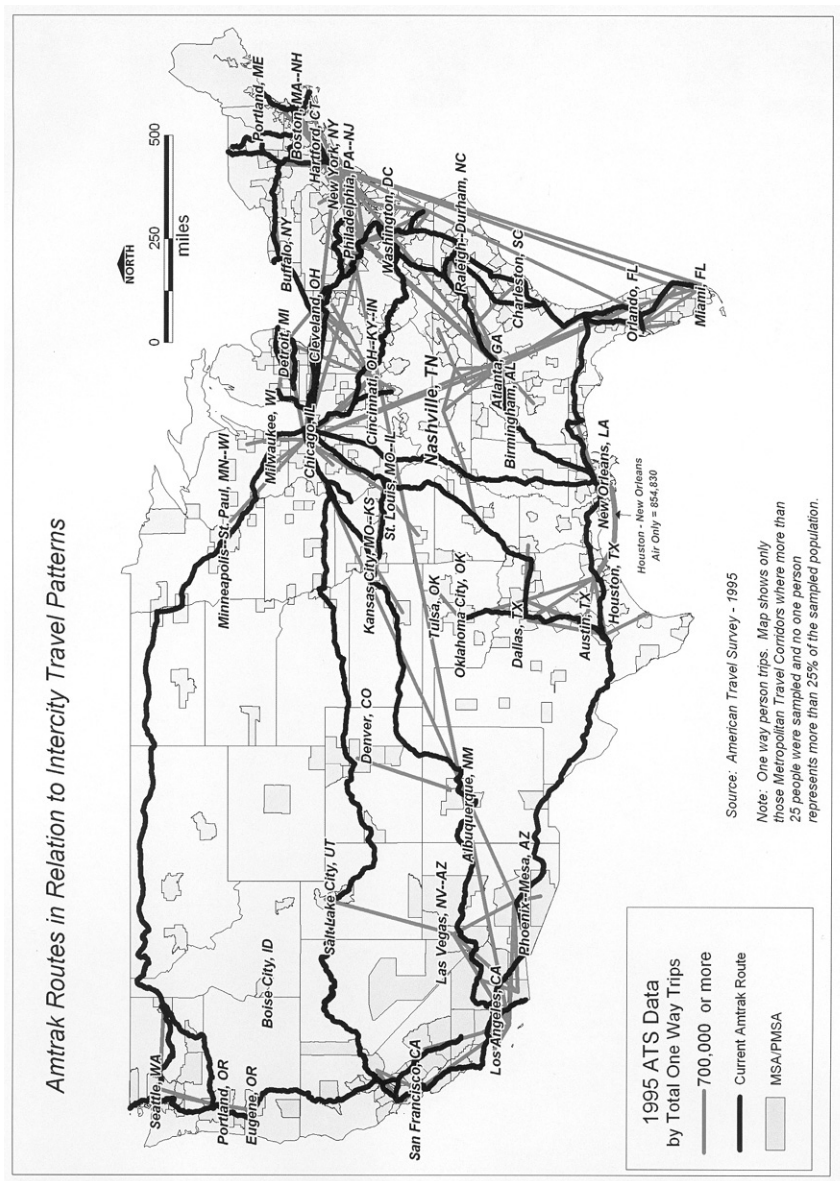
overly high per passenger subsidies, and diversion of funds from higher priorities. It is likely that as long as there is a Federal system and a United States Senate, these arguments will continue. At the same time, though, it should be possible to reduce costs, increase accountability and provide improved service to the rural areas of the West and the Great Plains by pursuing an intermodal approach. Instead of individual programs, Congress should create an Essential Transportation Service program, distributed to the states, which would allow the subsidization of rail service, intercity bus service, or air service based upon a finding of cost-effectiveness as measured by population provided accessibility, frequency and convenience. The program would need to recognize that air service is point-to-point service, while rail and bus can serve entire corridors, often on a multi-state basis. The aviation reauthorization legislation recently sent to Congress by the Bush Administration takes a good first step in this direction, by reforming the Essential Air Service program to provide for ground transportation services at short and medium distances.

- *Create a "Last-Mile" Intermodal Connections Program:* This would be a new intermodal funding category, funded by a series of modal funding sources with authorizations of $1.5 to $2 billion per year to fund projects to eliminate bottlenecks and make intermodal connections. Direct grants, loans and credit enhancement would all be funded. Eligible projects would include: intermodal terminals at airports and downtown hubs incorporating intercity rail and bus and local transit, and connections to the system; similar terminals and connections at ports, intermodal freight bottleneck relief in congested metropolitan areas and key corridors, and incentive grants for merged information, baggage handling and ticketing. Freight bottleneck relief projects should demonstrate an enhanced rate of return for the freight railroads.
- *Eliminate Legal Barriers to Intermodal Passenger Transportation Services:* Current airport, highway and transit statutes all act to inhibit creative action by states and metropolitan regions seeking to make airport intermodal connections. The barriers are fiscal, institutional, and regulatory. The first action is thus to act to untie the hands of airport proprietor, metropolitan planning agencies, state departments of transportation and transit agencies seeking to connect their airports to the surface transportation network. If necessary, Federal laws should be modified to allow alliances and mergers between intercity carriers in different modes, to encourage air-rail or air-bus and bus-rail networks to merge.
- *Intermodal Policy and Planning:* Build on the metropolitan planning capacity being funded for highways and transit by requiring rail and aviation plans to be coordinated with the metropolitan plan and the state plan, as appropriate. We applaud the Administration's recommendation in their Aviation reauthorization proposal to link proposed aviation investments with the metropolitan surface plans. Their proposal also includes a provision to create an intermodal information demonstration, which is an important and essential part of an integrated, networked approach to intercity travel.

Mr. Chairman, thank you for the opportunity to be here today. Intercity passenger rail is an essential part of a forward-looking national transportation policy. At the same time, we need to reform the way we approach passenger rail, just as we need to rethink our approaches to other transportation modes. An authorization which provides stable multi-year capital funding, promotes partnerships with states and private entities, creates incentives for intermodal integration with intercity bus and aviation, and refocuses Amtrak on primarily serving short and medium distance travel would be a big step in the right direction.

Amtrak Routes in Relation to Intercity Travel Patterns





The CHAIRMAN. Thank you very much.
Mr. Landes?

STATEMENT OF ALAN LANDES, SENIOR VICE PRESIDENT, HERZOG TRANSIT SERVICES, INC.

Mr. LANDES. Mr. Chairman, I want to thank you for the opportunity of speaking before the Committee.

Herzog Transit Services, headquartered in St. Joseph, Missouri, operates 88 passenger trains a day in the U.S. and provides a wide variety of services related to the passenger and railroad operations, freight railroad operations. Herzog believes that a key to reform of Amtrak and the intercity passenger rail service is to maximize the role of the private sector and introduce competition as quickly as possible into the national system.

Amtrak operates a number of intercity trains commonly known as 403(b) services through contractual obligations with States. Recently, Amtrak requested many States to substantially increase their subsidy on these trains. Missouri responded by announcing a competitive bid and requested a request for proposal to operate one of these trains known as the Missouri Mule. Herzog prepared a bid for this service, but Amtrak's refusal to negotiate access to facilities and services essential to operate the route made it impossible to prepare a compliant bid. Additionally, once Herzog announced its interest, Amtrak dramatically and artificially lowered its subsidy requirement from $8.9 million to $6.4 million. Using these unfair tactics, Amtrak succeeded in keeping competitors out of the bid process in Missouri.

Herzog believes that a fair competitive-bid procedure, to be directed by the states, but with DOT oversight, should be implemented immediately to prevent a repeat of this situation. The States would determine when and if they wish to solicit competitive bids. DOT would establish the guidelines for competitive bidding. They would monitor, but not control, the procedure and report to Congress in conjunction with the Federal Railroad Administration/ Amtrak grant process required by the Omnibus Appropriations Act for fiscal year 2003.

As soon as possible, senior authorizers and appropriators from Congress should encourage Amtrak to voluntarily cooperate in the fair competitive-bid procedure. If Amtrak refuses to cooperate, they should be compelled to do so through the next item of intercity passenger legislation to clear Congress.

Four major areas must be addressed in the construct of a fair competitive-bid procedure. Number 1, so long as Amtrak receives taxpayer subsidies, certain Amtrak facilities and services should be made available at incremental cost to other state-qualified passenger rail operators. Rolling stock currently used on services being bid should be made available at fair-market lease or purchase value. Amtrak must cooperative on through-ticketing arrangements. Negotiations must be conducted with clarity, and disputes should be resolved by binding arbitration by the FRA Administrator.

Number 2, alternative operators or the states would need to negotiate access charges with the railroads. Privately owned railroads must retain the right to approve private sector bidders who wish to conduct train operations over their property. Amtrak's fee for access privilege should be transparent and public, which will establish a benchmark for private sector competitors to negotiate from.

Number 3, intercity passenger-rail liability-insurance coverage should be combined into a common-pool policy. This pool could be managed by the FRA or a qualified nonprofit industry association.

Each operator qualified by a State would pay a premium into a common insurance pool.

Number 4, in connection with its grant-making authority, the FRA should direct Amtrak to reorganize its accounting in a transparent fashion that separates the direct costs for each route, and allocates indirect cost and overheads by the route, and requires Amtrak to account exactly like a private company. The FRA and Congress should monitor this process carefully and make public reports.

Finally, implementation of a 403(b) fair competitive-bid procedure, we have outlined as the next step necessary to move forward with the U.S. passenger rail reform process.

I want to thank you.

[The prepared statement of Mr. Landes follows:]

PREPARED STATEMENT OF ALAN LANDES, SENIOR VICE PRESIDENT, HERZOG TRANSIT SERVICES, INC.

I am Al Landes, Senior Vice President of Herzog Transit Services (Herzog), headquartered in St. Joseph, Missouri. Herzog operates 88 passenger trains a day in the United States. We also provide a wide variety of services related to passenger and freight railroad operations, including train dispatching, maintenance and overhaul of rolling stock, station operations, and construction and maintenance of railway track and related infrastructure. We are not alone in the private-sector rail passenger business. Around the world private companies are successfully operating thousands of passenger trains daily under contract to government authorities.

As a rail passenger service operator we have closely followed the debate on reform of Amtrak and intercity passenger rail service. Currently Amtrak holds a *de facto* monopoly on American intercity rail passenger service. The results are not good. We believe one key to reform is to maximize the role of the private sector and introduce competition as quickly as possible into the national system.

Major restructuring of intercity rail passenger service along lines proposed by the Administration and others will take a long time. A program to introduce competition to selected Amtrak operations can begin now under existing law. In fact, the process has already begun. Today Amtrak operates commuter rail services as well as shorter distance intercity trains through contractual obligations with the states. These shorter distance intercity trains are commonly known as 403(b)[1] service. Recently, Amtrak requested many states to substantially increase their subsidy on these trains. The State of Missouri responded by announcing a competitive bid and issued a request for proposal to operate one of these trains, the *Missouri Mule*. Herzog prepared a bid for this service. We learned that under current conditions a private company cannot bid against Amtrak's uncooperative government-subsidized monopoly and win. In the case of Missouri, Amtrak's refusal to negotiate access to facilities and services essential to operating the route made it impossible to prepare a compliant bid. Further, once Herzog announced its interest, Amtrak dramatically and artificially lowered its subsidy requirement from $8.9 to $6.4 million. Amtrak succeeded in keeping competitors out of the bid process in Missouri. They did not bother to put in a bid themselves, perhaps not wanting to give the competitive process any credibility.

Herzog has learned a hard lesson. But we are not discouraged. We intend to press on and are continuing discussions with Missouri and other states on creating a mechanism to put the 403(b) bid procedure on a level playing field. We believe much can be done without a change in law. We know many states are frustrated and want to introduce the element of competition into state subsidized intercity passenger service. However, if this procedure is to be made to work, we need strong direction from both Congressional leaders and the U.S. Department of Transportation. New procedures that apply in a standardized manner across the board to 403(b) state-subsidized service are needed. We believe a "Fair Competitive Bid Procedure," to be directed by the states, but with DOT oversight, should be implemented immediately. The States would determine when, and if, they wish to solicit competitive bids for 403(b) service. DOT would establish the guidelines for competitive bidding. They

[1] 403(b), a term originally coined in now-repealed legislation, is still in common use to refer generally to intercity passenger rail service that is funded in some part by state government(s).

would monitor (but not control) the procedure and report to Congress in conjunction with the Federal Railroad Administration/Amtrak grant process required by the Omnibus Appropriations Act for fiscal year 2003. As soon as possible senior authorizers and appropriators from the Congress should encourage Amtrak to voluntarily cooperate in the Fair Competitive Bid Procedure. If Amtrak refuses to cooperate they should be compelled to do so through the next item of intercity passenger legislation to clear Congress.

To create a Fair Competitive Bid Procedure for intercity passenger service under current law there are four major areas that must be addressed. The first is Amtrak's control of taxpayer provided facilities, equipment and services. The second is access to track owned by private freight railroads. The third is liability. Fourth is Amtrak's ability to raise or lower its bid to any level by using its Federal subsidy. The following are our proposals.

I. Access to Amtrak Equipment, Facilities and Services

To create a Fair Bid Procedure for state-subsidized 403(b) service, Amtrak must make taxpayer-subsidized assets available on a fair basis. So long as Amtrak receives taxpayer subsidy Amtrak facilities, equipment and services should be made available at incremental cost [2] to state-qualified operators. We suggest Amtrak be required to engage in "quick fuse" negotiation so bidders can meet state deadlines at the request of the state on behalf of any qualified applicant. Disputes between Amtrak and a qualified bidder should be resolved by binding arbitration by the FRA Administrator. The following is what we learned from the Missouri experience and our proposed resolution of each issue.

Locomotives and Passenger Cars. The RFP required the winning bidder to provide train sets sufficient to run the service. We scoured the private marketplace and arranged to acquire locomotives and passenger cars. However, passenger rail rolling stock is a complex and expensive capital item, typically with significant custom modifications. The market for this equipment is tight and ordering, manufacture and delivery of new or refurbished rolling stock is typically a multi-year process. Access by bidders to the rolling stock currently providing the service can best ensure continuity and quality of service.

—*Proposed Resolution:* Because Amtrak locomotives and passenger cars in 403(b) service have been acquired with significant public subsidy they should be made available to alternative bidders by Amtrak at a fair market lease or sale value. The FRA Administrator should arbitrate the negotiation upon request by the State or state-qualified bidders.

Access to Stations. The RFP required access to passenger stations along the route. Herzog readily negotiated access to city-owned stations. Amtrak owns the critical St. Louis Station. When Herzog tried to negotiate access to that station Amtrak informed us they could not negotiate access in a timely fashion to meet the bid deadline [3] therefore Herzog was unable to submit a compliant bid.

—*Proposed Resolution:* At state request, Amtrak should make stations and facilities available at incremental cost in a "quick fuse" negotiation conducted in a timely enough manner to not impede the bid process. Negotiations would be arbitrated if necessary by the FRA Administrator at request of the state or one of the bidding parties.

Establishment of Maintenance Facilities. The RFP required the operator to provide a maintenance facility for rolling stock. Herzog identified an excellent vacant Amtrak property that included an abandoned building adjacent to the St. Louis station. Amtrak responded that the site had been identified as a possible future maintenance facility "and must be reserved for that use." [4] Herzog was able to identify alternative, although less desirable property.

[2] Note that we are not asking for forced access to freight owned track at incremental cost—only access to Amtrak facilities. Since Amtrak has access to private facilities at incremental cost, there is ample justification to give private operators access to taxpayer-provided Amtrak facilities at incremental cost. This is especially true as competition will inevitably introduce efficiencies and lower the taxpayer subsidy.

[3] Amtrak put on the table numerous issues that would require resolution before station or track access could be provided. These included appraisals of the property as the starting point of the long process necessary to determine an appropriate price for station and track access. In a major understatement, Amtrak concluded in a letter from Gil Mallery, Vice President of Planning and Business Development dated March 21, ". . . we cannot guarantee that these discussions could be completed in a time frame adequate for you to meet the RFP's timetable." The Mallery letter is attached as an exhibit.

[4] Mallery letter of March 24.

—*Proposed Resolution:* At state request Amtrak should either provide access to maintenance facilities and property at incremental cost or make the property available by lease or sale at fair market value. The only exception to this would be if Amtrak had a legitimate current alternative use for the property in question for intercity passenger service as determined by the FRA Administrator.

Cooperative Through Ticketing Arrangements. A condition of the RFP was cooperation with Amtrak to implement a through ticketing system. The need was to make the transition between service providers seamless for the riding public for whom the *Missouri Mule* service would only be a part of their rail journey. Amtrak would not cooperate on this issue, stating, "We do not make this system available to any third parties."[5] This made it impossible to submit a compliant bid as it would have kept the Missouri Mule out of the national network. This alone could doom the operation.

—*Proposed Resolution:* Amtrak must cooperate with any state-designated intercity passenger rail operations bidder on through ticketing arrangements. Disputes should be subject to binding arbitration by the Administrator of the FRA.

II. Track Access

Herzog recommends that a 403(b) Fair Competitive Bid Procedures mechanism be established with no change in Amtrak's current incremental cost access to privately owned infrastructure. Privately owned railroads must retain the right to approve private sector bidders who would conduct train operations over their property. We recognize that this will provide Amtrak with an enormous advantage. However, as long as Amtrak holds the right of mandatory access at incremental cost over private property, their fee for that privilege should be transparent and public. This will establish a benchmark for private sector competitors to negotiate from.

We believe this would be a successful formula. It grants the freight railroads great leverage in the process. It assures owner railroads need only negotiate with responsible and safe bidders while improving their rate of return from passenger service.[6] 403(b) Fair Competitive Bid Procedures will give the track owners an opportunity to prove once and for all that they will cooperate in a process that will permit world-class passenger service over privately-owned lines without forced government access.

III. Liability

To create a 403(b) Fair Competitive Bid Procedure an additional issue of insurance needs to be addressed. The Amtrak Reform Act established liability at $200 million per accident. Amtrak has negotiated a nationwide policy of insurance coverage, supported with taxpayer dollars. It is difficult but not impossible for a smaller private-sector operator to obtain specific coverage for a limited operation.

—*Proposed Solution:* Intercity passenger rail insurance coverage could be combined into a common pool policy. This pool could be managed by the FRA or a qualified non-profit industry association. Each operator qualified by a state would pay a premium into the common insurance pool.

IV. Amtrak Bid Procedures

In the Missouri case, as soon as Herzog made its interest in bidding for the service known, Amtrak suddenly lowered its request for state subsidy. This proves competition works! However, if its original request was based on justifiable real numbers, its suddenly lowered request merely shifts the subsidy from state to Federal taxpayers. The ability to do this alone gives Amtrak complete control of a bid process. It is impossible to know Amtrak's real cost or to separate out the subsidy in a bid environment. Given this, it is impossible to compete fairly against a taxpayer-

[5] *Ibid.*

[6] Currently there are many examples of privately negotiated arrangements which permit commuter passenger trains to operate over freight railroad-owned track and permit mixed freight and passenger train operations. Making the Amtrak forced access fee transparent will help level the playing field for the bidders, for the states seeking bids and will be an advantage to the freight track owners. The difference between the Amtrak number and a privately negotiated number is a market mechanism for publicly identifying subsidy Amtrak has been receiving from freight railroads. For example, Herzog operates passenger trains over Union Pacific owned line in California. This access agreement was negotiated by the commuter authority and the number is not public. Herzog would wager that the access fee is higher than comparable Amtrak incremental access fees by more than one hundred percent.

subsidized company. Amtrak has in fact candidly admitted that they cannot bid against private companies without Federal money.[7]

—*Proposed Solution:* In connection with its grant-making authority, the FRA should instruct Amtrak to reorganize its accounting in a transparent fashion that separates the subsidy and requires Amtrak to account exactly like a private company. The FRA and Congress should monitor this process carefully and make public reports. This solution may require future legislation.

Conclusion

Despite the fact that Amtrak's failure to cooperate made it impossible to bid in the Missouri situation, we want to make it clear that Herzog is in this game for the long run. Railroad passenger service is our business and we won't be dissuaded from competing in our market. We have asked the State of Missouri to extend the Amtrak agreement for the shortest possible time and ultimately to reopen the competitive process. We understand the great frustrations that states like Missouri, California, New York, North Carolina, and Michigan have had in trying to preserve their intercity passenger service. If a 403(b) Fair Competitive Procedure can be established, even without changes in the present law, Herzog will be an aggressive bidder in the field.

In all of the public tumult over the near bankruptcy of Amtrak, an essential fact has been lost. That is the stunning success of rail passenger service in America. Commuter authorities are running 20 times more passenger trains every day than Amtrak runs intercity passenger trains. Transit ridership grew by nearly 20 percent between 1997 and 2001 and forty-seven of the top fifty metropolitan areas are pursuing rail investments.[8] Further, by this time next year, nearly 40 million passengers a year will be riding on trains operated by private companies in the United States. The Herzog operations move 2.5 million passengers per year in Southern Florida, 1.4 million per year on the Trinity Railway Express in Dallas and 922,000 per year in California. The Connex operation in Boston will move 37 million passengers annually. Around the world, hundreds of thousands of passengers are carried daily on thousands of privately operated trains. This is the successful American and worldwide experience on which we have the opportunity to build. We need to draw lessons from this experience to apply to the reform of Amtrak and to realize the restoration of world-class passenger service across the United States. The next step in this reform process is implementation of the 403(b) Fair Competitive Bid Procedure we have outlined.

NATIONAL RAILROAD PASSENGER CORPORATION
Washington, DC, March 21, 2003

Vice President Corporate Development,
Herzog Companies,
St. Joseph, MO

Dear Ray:

I am responding to your letter of March 11, 2003 to David J. Carol regarding Amtrak's willingness and ability to provide various services to potential providers of Missouri state-supported rail service.

We are certainly willing to begin discussions with Herzog and any other potential providers of Missouri state-supported rail service. We should begin discussions as soon as possible given the Missouri RFP's short timetable. In particular, we feel it is important to explain to you all the issues that have to be resolved in order to provide access to our station and track facilities. For example, in order to define an appropriate price for station access, it will be necessary to obtain an appraisal of the property as a starting point. Although we will endeavor to work as quickly as possible to resolve the many issues surrounding access to the facilities, we cannot guarantee that these discussions could be completed in a timeframe adequate for you to meet the RFP's timetable.

With respect to your request to use Amtrak's reservations system, please note that we do not make this system available to any third parties. With respect to your inquiry about the abandoned building and vacant property adjacent to the Amtrak station, please note that it has been identified as the site for a future maintenance facility for the Midwest Regional Rail Initiative and must be reserved for that use.

[7] "Our existence is dependent upon Federal funding and therefore our ability to be in existence and be able to bid on these contracts is because of Federal aid."—Amtrak Vice President Cliff Black, Argus Urban Transport Solutions, March 24, 2003, page 4.

[8] "Stay the Course." Surface Transportation Policy Project. Page 11, March 2003.

Please contact David Carol as soon as possible to schedule a meeting to discuss access to the Amtrak station and track facilities.

Sincerely,

GIL MALLERY,
Vice President, Planning and Business Development.

The CHAIRMAN. Thank you, Mr. Landes.

Mr. Pracht?

STATEMENT OF MICHAEL P. PRACHT, CHAIRMAN, PASSENGER TRANSPORTATION COMMITTEE, RAILWAY SUPPLY INSTITUTE, INC.

Mr. PRACHT. Good afternoon, Mr. Chairman. Thank you for this opportunity to testify.

My name is Mike Pracht, and I'm here today in my capacity as the Chairman of the Passenger Transportation Committee at the Railway Supply Institute. My personal background includes 25 years in private sector rail transportation business around the world. I'm privileged to be here on behalf of the RSI today, which represents approximately 400 companies, 150,000 employees, and approximately $20 billion in annual revenue.

I believe this country is on the verge of a national transportation crisis. Gridlock and winglock will only worsen in this process. We must develop an integrated and balanced national transportation network that includes air, road, and rail working together in co-operation rather than in competition. Such a balanced transportation system will leverage the strengths of each mode.

We have ignored, or perhaps failed to recognize, the importance of rail in this inter-modal mix. Think of the proverbial three-legged stool and the obvious instability created by a single shorter leg.

I would like to offer my written statement for the record and summarize the following four points.

The CHAIRMAN. Without objection.

Mr. PRACHT. First, this nation must stop fueling the long-standing and counterproductive competition that has existed between air, road, and rail. We must recognize that real inter-modal cooperation offers more competitive alternatives to passengers and shippers, and relieves an already overly stressed system. Using higher-speed rail to connect city pairs between one and 400 miles will provide greater reliability and safety to the motorists and a more productive alternative to the flyer. The airline industry could take advantage of more suitable and best-mode feeder connections that would carry greater numbers of people more efficiently, freeing up both gates and airspace to be used more economically. French, German, and Japanese airlines, as transportation providers, all use high-speed rail connections interchangeably with express aircraft to provide an overall travel experience that is seamless, comfortable, and superior.

Second, this vision for America will not come from the private sector alone. Transportation systems consist of two basic parts—a cash-intensive operating organization and a capital-intensive infrastructure. When put together, there is simply not enough ridership, real estate, or other sources of revenue to provide a viable private sector business case to cover both capital and cash requirements. The solution lies in net new investment coming from both public

and private sectors. If the Federal Government is willing to invest in the infrastructure, the private sector will invest in the operation.

Third, it is counterproductive to continue to combine the historical and politically charged debate over Amtrak with a meaningful discussion of intercity passenger rail. One has little to do with the other, and linkage is detrimental to both. RSI is a strong supporter of Amtrak. We are encouraged by David Gunn's straight-talking style and cost-cutting results.

Fourth, RSI appreciates this committee's leadership. We would like to propose a new Federally chartered corporation, similar to Fannie Mae, that would enable capital investment in rail infrastructure projects not otherwise eligible for transportation trust funds under TEA–21. The Rail Finance and Development Corporation, or RFDC, would issue Federal tax-credit bonds to support higher-speed rail, inter-modal terminals, access to seaports and airports, short-line improvements, urban relocations, and increased freight-rail capacity.

As with similar proposals, bondholders would receive Federal tax credits in lieu of interest, with a sinking or escrow fund established to guarantee repayment of the principal. To be effective, the RFDC would require significant financial resources and state match to support eligible projects and public/private partnerships. We would propose $50 billion in authority to be spread over the first 6 years.

In conclusion, Mr. Chairman, public investment in transportation has historically produced economic stimulus. The whistle-stop economies of the 19th century and the interstate highways of the last century offer compelling examples. We encourage the Congress to support balance and equity in the reauthorization of both TEA–21 and AIR–21. Rail needs to become a vital part of the national transportation investment program.

It is time for the Federal Government, the states, and all of us in the transportation sector, including the rail industry, to come together with the cooperation, purpose, and resolve to provide the leadership it will take to move this vision forward.

Thank you, again, for this opportunity to testify, and I look forward to answering your questions.

[The prepared statement of Mr. Pracht follows:]

PREPARED STATEMENT OF MICHAEL P. PRACHT, CHAIRMAN, PASSENGER TRANSPORTATION COMMITTEE, RAILWAY SUPPLY INSTITUTE, INC.

Good morning, Mr. Chairman and distinguished members of the Committee. Thank you for this opportunity to testify. My name is Mike Pracht, and I am here today in my capacity as Chairman of the Passenger Transportation Committee of the Railway Supply Institute (RSI). My personal background includes more than 25 years of private-sector experience in the rail transportation business, in senior management positions, at Siemens (from Germany), Ansaldo (from Italy), and Union Switch & Signal (a former George Westinghouse company) from the State of Pennsylvania.

It is a privilege to appear before you today on behalf of RSI, which is the successor of two historically significant trade associations, the Railway Progress Institute (RPI) and the Railway Supply Association (RSA). Our new consolidated association represents over 400 companies from around this nation; large and small, public and private, with approximately 150,000 employees who generate in excess of $20 billion in annual revenue. These companies manufacture and lay the rail; build the locomotives, tank, freight and passenger cars; design and install the signal and telecom systems; and provide financing, after-sales service and maintenance to the entire North American mainline market. Many of these companies, or their prede-

cessors, have distinguished histories, and contributed their expertise in the previous millennium when rail investments were considered in the context of the national interest and economic growth.

I serve with passion at RSI because I believe that this country is on the verge of a national transportation crisis. Gridlock and winglock are both at epidemic proportions that will only worsen if left to historical trends. The solution to this problem lies in our collective ability to develop an "integrated and balanced" national transportation network that includes air, road and rail, in cooperation rather than in competition. Such a balanced transportation system will leverage the strengths of each mode to improve overall mobility and provide better economic results in a more environmentally friendly fashion. We have ignored, or perhaps failed to recognize, the importance of rail in this intermodal mix. Think of the proverbial three-legged stool and the obvious instability created by legs of different sizes.

My testimony will concentrate on four basic points that RSI believes the Committee should consider in developing a balanced transportation policy to support higher-speed passenger rail development in the United States.

A Balanced Approach is Essential

This nation must stop fueling the long-standing, unnecessary and counterproductive competition that has developed between air, road and rail. We must recognize that "real" intermodal cooperation offers the benefit of more competitive alternatives for passengers and shippers; much needed strain relief for an already overly stressed system; and better economic and environmental return on capital investment. Expected future growth highlights the challenge:

- From 2000 to 2025 the U.S. population will grow 23 percent to 346 million people.
- U.S. commercial emplanements are expected to double to 1.2 billion per year by 2025.
- Total road miles traveled will grow 70 percent between now and 2025 to 4.6 trillion annually. This compares with just 1.3 trillion vehicle miles annually on essentially the same Interstate Highway system back in 1975.

Current plans to increase both air and ground capacity only simply cannot keep pace. Federal investment in rail infrastructure, together with state and private sector partnerships, must be part of the solution.

Using higher-speed rail to connect city pairs of between 100–400 miles would benefit the traveling public by providing greater reliability and safety to motorists and a less costly and more productive alternative for fliers. Residual benefits would result from increased capacity at airports and interstates paying much-needed dividends to both in the process.

Specifically, the airline industry could take advantage of more suitable "best-mode" feeder connections that would carry greater numbers of people more efficiently. More optimized use of gates, runways, and airspace would reduce delay, increase capacity and safety and improve cost-to-revenue ratios. The airlines would benefit from better returns on seat revenue; the airports from better returns on gate revenue; the Federal Aviation Administration from fewer blips on the radar screen; and the traveling public from a more user friendly system.

On the highways, investment in rail will produce additional capacity, and reduce congestion (and road rage). Rail will enable more productive alternatives for interstate commuters and shorten rush hours, reduce lost time and help improve demographic balance and sprawl.

In summary, we must promote a balanced transportation system. To do so we must balance our investment.

The Federal Government Must Lead

Federal leadership paved the way for our extensive interstate network, and fostered our comprehensive aviation system. Higher-speed passenger rail requires the same commitment—results will not come from the private sector or the states alone.

The reason is fundamental. Rail transportation systems consist of two basic parts, a cash-intensive operating organization and a capital-intensive infrastructure. Both components represent very different Return-On-Investment (ROI) models and present very different investment scenarios. When put together, there is simply not enough ridership, real estate, or other potential sources of revenue to produce a viable private-sector business case to cover both the up-front capital needs and the longer long-term cash and ridership risks. It is reasonable to expect the private sector to invest on the operating side because predicted financial models are consistent with traditional risk-tolerance levels and expectations. This is unfortunately not the case on the infrastructure side where a longer-term investment and risk-tolerance

philosophy is necessary. Such a longer-term business case, however, is also where the Federal Government has historically invested in partnership with the states resulting in impressive and quantifiable economic returns on initial capital investment.

Experience in high-speed rail investment in Europe and here in municipal transit markets have translated into significant increases in both business and tax revenues. Each dollar invested in transit capital programs yields $3 in private-sector sales and profits. This creates both short- and long-term jobs along the right-of-way, benefits residential and commercial construction, and stimulates regional retail and service economies. Return revenues to all levels of government increase through permit fees, sales/income taxes, and a more generally robust economy.

The solution lies in net new investment coming from both public *and* private sectors. If the Federal Government, supported by the states, is willing to invest in the infrastructure, the private sector will invest in the operation. Other industrialized nations have learned that public investment in ground transportation is simply good business that makes sense for stakeholders and beneficiaries alike.

Amtrak's Future Must Be Addressed Separately

It is counterproductive to continue to combine the historical and politically charged debate over Amtrak with a meaningful discussion of intercity passenger rail. One has little to do with the other, and linkage is detrimental to both.

We must first determine *what* benefit higher-speed rail will provide to our overall transportation network and how its integration with existing modes will be best achieved. We must then identify state and regional stakeholders with the most pressing needs and ability to implement projects that produce the most favorable returns.

Only after considering these issues can we consider *how* these new corridors should be operated. For such new operations, Amtrak should be considered a competitor among equals. Amtrak will bring advantages, including its current access to the freight rail system and long expertise with intercity passenger operations. Other prospective entrants, particularly where dedicated rights-of-way are envisioned, might offer different approaches that could be considered.

RSI is a strong supporter of both Amtrak and public investment in rail. Our member companies are suppliers to Amtrak and vested stakeholders in Amtrak's future. We are encouraged by David Gunn's straight talking style and cost-cutting results. We applaud the steps he has taken to instill discipline, financial credibility, and private-sector performance measurements.

RSI's Proposal for a Rail Finance and Development Corporation

RSI appreciates the Committee's previous efforts to promote Amtrak and higher-speed rail, and leadership in reporting significant authorizing legislation in the last Congress. As a complementary way to accelerate the development of higher-speed intercity rail, RSI offers a different approach for the Committee's consideration to establish a dedicated source of Federal funding for rail.

RSI's concept builds upon previous legislative efforts to authorize tax-credit bonds for higher-speed rail, such as the High Speed Rail Investment Act, considered in the last Congress. RSI's proposal broadens this idea by enabling these tax-credit bonds to be issued through a private, non-profit, Federally chartered corporation, the Rail Finance and Development Corporation (RFDC) for capital investment in rail-related infrastructure not generally eligible for surface transportation trust fund expenditures under TEA–21.

RFDC would provide financial support for capital projects that:

- Develop higher speed intercity rail corridor passenger services, including infrastructure and equipment;
- Provide efficient rail access to ports;
- Provide efficient rail access to intermodal terminals:
- Provide high frequency rail access to airport terminals;
- Provide increased capacity on the Nation's rail freight network designed to enhance security, reduce congestion and to improve air quality and efficiency;
- Support the capital needs of short line and regional railroads for infrastructure improvements to serve rural and smaller communities and accommodate 286,000-pound freight cars.
- Support relocation and/or consolidation of rail lines and facilities in urban areas.

By embracing all forms of rail investment through this initiative—not just higher-speed rail—RSI believes that our national goal of a balanced intermodal transportation system can be realized.

The RFDC would be modeled on existing Federally chartered entities such as Fannie Mae, and governed by a Board of Directors appointed by the President. RFDC's function and authority would be subject to the oversight of the Congressional committees of jurisdiction. Specific criteria to be included in the RFDC's authorizing legislation would govern project eligibility, selection, state match, financing and repayment obligations. Bondholders would receive Federal tax credits in lieu of interest; a sinking fund based on state match (and other contributions as required) would be established to guarantee repayment of principal.

To be effective, the RFDC must have significant financial resources, and RSI suggests granting initial authority to issue up to $50 billion over a six-year period in Federal tax credit bonds to states and public/private partnerships to finance eligible rail-related capital projects. This represents a substantial investment, but the *need* for mobility is substantial. RSI looks forward to partnering with interested stakeholders and working with the Committee to develop this concept more fully. Our nation requires Federal leadership in rail development, and an entity such as the RDFC would enable this to happen.

In this context, RSI notes that balance and equity also requires elimination of the present discriminatory and unfair 4.3 cents per gallon deficit reduction tax and rail and barge diesel fuel. Investments should be made to even the playing field, and enable users to choose the most effective and efficient mode to provide needed mobility.

Conclusion

In conclusion, Mr. Chairman, public investment in transportation has historically produced economic stimulus. The whistle-stop economies of the 19th century and the interstate highways of the last century offer compelling examples. We encourage the Committee and the Congress to support balance and equity in the reauthorization of both TEA–21 and AIR–21. Rail needs to be a part of the national transportation investment program. It is time for the Federal Government, the states, and all of us in the transportation sector—not just the rail industry—to come together in cooperation, and with purpose to provide the leadership it will take to move this vision forward.

Thank you again for the opportunity to testify. I look forward to answering any questions you may have.

The CHAIRMAN. Thank you, Mr. Pracht.

Mr. Landes, Mr. Gunn stated in his testimony that it's a myth that the private sector is interested in taking over Amtrak's services. You wouldn't agree with that statement, from your testimony, but are there other companies, in addition to Herzog, that have expressed interest in operating trains or managing equipment and maintenance or taking on some of the Northeast Corridor infrastructure?

Mr. LANDES. Yes, Mr. Chairman, there are. I think they talked about the Boston service that was recently procured. You've got Connex, you've got Bombardier, you've got Alstom. All of them are prepared to provide a variety of services, including ourselves. And I think, as we've demonstrated throughout this country, wherever competition is allowed to happen, you know, people will come and participate. And you probably have a myriad of other companies that, given the opportunity, would avail themselves of it. There just really hasn't been that much, particularly at the Federal level. And so, yes, I think you would see a lot of people getting in line.

The CHAIRMAN. Would you do me a favor and submit, for the record, a list of those organizations and what they would—to your knowledge, they'd be willing to do?

Mr. LANDES. Yes, sir.

[The information referred to follows:]

Preliminary List of Contacts for Discussion of Amtrak Privatization

Originally compiled by Mercer Management Consulting, Inc.—Updated May 16, 2003.

Contact	Description
ALSTOM TRANSPORT Francis Jelensperger Senior Vice President, North America 353 Lexington Avenue, Suite 800 New York, NY 10016 Phone: 212–557–7265	Major global supplier of rail products, services, and systems.
BOMBARDIER TRANSPORTATION Pierre Lortie President and COO 1101, rue Parent Saint-Bruno, Quebéc J3V 6E6 Canada Phone: 450–443–8984	Leading global supplier in the rail equipment, manufacturing, and servicing industry.
CONTINENTAL AIRLINES David Grizzle Senior Vice President of Corporate Development 1600 Smith Street Houston, TX 77002 Phone: 713–324–2966	Major international air carrier.
CONNEX NORTH AMERICA Jim Stoetzel Vice President, Contract Operations Two Central Street Georgetown, MA 01833 Phone: 978–352–8820	Subsidiary of Vivendi Environnement, operator of passenger rail franchises in the U.K. and elsewhere.
CORUS RAIL Jon Bolton Managing Director 54 Route de Sartrouville 78230 Le Pecq, France Phone: 33–1–30–15–67–25	U.K.-based international supplier in the rail infrastructure, manufacturing, and servicing industry.
DEUTSCHE BAHN AG Dr. Klaus Vornhusen Corporate Strategy Potsdamer Platz 2 10785 Berlin Germany Assistant: Ms. Simone Kloss Phone: 011–49–30–297–61520	German national railway.
GNER (GREAT NORTH EASTERN RAILWAY) Christopher Garnett Vice President Rail Subsidiary of Sea Containers Ltd. Main Headquarters, Station Road York YOl 6HT Phone: 44–1904–522–200	International provider of multimodal transportation services; operator of U.K. passenger franchise.

Preliminary List of Contacts for Discussion of Amtrak Privatization—Continued

Originally compiled by Mercer Management Consulting, Inc.—Updated May 16, 2003.

Contact	Description
GREAT SOUTHERN RAILWAY Stephen Bradford Chief Executive Officer 502 Albert Street East Melbourne VIC 3002 Phone: +61 3 9668 8803 Fax: +61 3 9668 8891	Long-distance passenger train operator. Operates three Australian trains: the Indian Pacific (4,352 km. Sydney-Adelaide-Perth), the Ghan (Sydney/Melbourne-Adelaide-Alice Springs), and the Overland (Melbourne-Adelaide).
HERZOG TRANSIT SERVICES Raymond V. Lanman Vice President Corporate Development 600 S. Riverside Road St. Joseph, MO 64507 Phone: 816–233–9001	U.S. company providing a full range of services to transit agencies in the management, operations and maintenance of commuter, regional and light rail passenger systems.
KAWASAKI RAIL CAR, INC. Yuichi Yamamoto, President Motokatsu Yoshizawa, Manager, Contract Administration & Marketing 29 Wells Avenue Yonkers,NY 10701 Phone: 914–376–4700	U.S. arm of leading manufacturer of light rail, subway, and high-speed rail cars.
NATIONAL EXPRESS GROUP Richard Goldson Rail Development Director 75 Davies Street London W1Y 1FA Phone: 44–207–529–2057	Leading international public transport group in rail, bus, and airports; operator of U.K. passenger franchises.
ÖSTERREICHISCHE BUNDESBAHNEN Magister Karl Zoechmeister Head of Passenger Division Praterstern 3 1020 Wien Austria Assistant: Ms. Joksch Phone: 011–43–1–93000–32042	Austrian national railway.
PORTERBROOK LEASING COMPANY Paul Francis Managing Director Burdett House Becket Street Derby D61, 1JP Phone: 44–1332–262–454	International specialist in rail equipment and infrastructure leasing and maintenance; one of the U.K. ROSCO's.

Preliminary List of Contacts for Discussion of Amtrak Privatization—Continued

Originally compiled by Mercer Management Consulting, Inc.—Updated May 16, 2003.

Contact	Description
RAILWAY SERVICE CORPORATION Scott Spencer President 604 South Bancroft Parkway Wilmington, DE 19805 Phone: 302–354–3577	Consortium of operators and investment banks formed to provide a private-sector solution for Amtrak long-distance services.
RATP INTERNATIONAL Maurice Simony CEO 54 quai de la Rapee F–75599 Paris Cedex 12 Phone: 00–33–1–44–68–46–99	Operator of the Paris Metro and of the RER (Regional Express Network), the suburban train network of Paris.
SCHWEIZERISCHE BUNDESBAHNEN Mr. Peter Grossenbacher Corporate Planing Passenger Division Brueckfeldstrasse 16 3000 Bern 65 Switzerland Phone: 011–41–512–203480	Swiss national railway.
SNCF PARTICIPATION Armand Toubol, Chairman Mireille Faugère, CEO Phone: 33–1–53–25–84–36	Holding company for subsidiaries of SNCF, the French national railway (Sistra, SNCF International, Keolis).

The CHAIRMAN. Thank you.

Mr. King, what was North Carolina's experience in contracting out equipment and maintenance for the Piedmont and Carolinian service? And were you surprised at some of the conditions that Amtrak imposed?

Mr. KING. Mr. Chairman, we had been relatively displeased with the level and the quality and the cost of maintenance service for equipment, which the State of North Carolina, in this case, owns. And we also own the property and the facilities in which it's maintained. Amtrak supplied a contractor, and we did not think they were responsive to the kinds of quality and cost-control measures and inventory control that we thought were appropriate.

We worked with Amtrak for a couple of years to develop an RFP to get another bid for those sorts of services and expected Amtrak to bid along with others. At the—24 hours or so before the RFP was to be received, or the proposals were to be received, Amtrak told us that they would not be bidding. We got a couple of responsive bids, both of which we considered to be high-quality bids. We chose the lower cost of the two and then went through a period of crisis for about 90 days, during which Amtrak continued to impose conditions basically related to liability and risk management, then ended up raising our costs through our contractor, which turned out to be Herzog, by imposing additional insurance costs which had not been anticipated.

So, yes, we were surprised and dismayed with the difficulty. However, I can report on the good-news side that after a year of experience with the private contractor, we are well pleased and think we still made the right move.

The CHAIRMAN. Thank you.

Mr. Dittmar, are there instances when intercity passenger rail service connecting major cities to airport could avoid a need to expand or build new airports? I'm thinking specifically of the problem of Chicago O'Hare, which we continue to wrestle with at this committee, say, could be interconnected to Milwaukee. Is that part of the scenario that you envision?

Mr. DITTMAR. I think there are—as I say in the written testimony, there are three cases for making airport/rail connections, and the first is to provide access to a secondary airport to relieve a congested airport, and that would be the case of Milwaukee. The second would be to provide feeder service from outlying locations where it's not really efficient to provide it by air service, and that might be the case of Madison to Chicago. And the third is making a direct high-quality linkage between the airport and the downtown rail hub. And the example, the best example, is, unfortunately, not in this country; it's the Heathrow Express, which is about 15 pounds and 15 minutes to Paddington Station, and there are——

The CHAIRMAN. What about Denver?

Mr. DITTMAR. Denver, sadly, failed to make such a connection, but I think there is a great opportunity to actually feed the Great Plains and my State of New Mexico, incidentally, to the Denver airport. I have to drive from Las Vegas to New Mexico, to Albuquerque, fly to Denver for every flight. And so the potential of having a high-quality bus connection or perhaps, in the future, a rail connection would actually end up saving me time.

The CHAIRMAN. Well, maybe you could go to Phoenix.

[Laughter.]

Mr. DITTMAR. I always do when I travel to the West.

The CHAIRMAN. But I do have some sympathy for—that the time you take to get to a major airport far exceeds the time to get to your destination.

Mr. DITTMAR. And since—if I might add—since we looked at what's happened since September 11 and since the airlines have gone into their financial crisis, my closest airport is Santa Fe, and it has lost 65 percent of all flights in the last year. And so we're seeing a bailing out of the airlines from those short- and medium-distance routes.

The CHAIRMAN. And we also see incredibly high prices from those smaller airports, as well, for obvious reasons, although not so obvious to the person that has to pay more for that short flight than the long one.

Mr. DITTMAR. You can't fault the airlines for making a business decision. The question really is, is there a more efficient way to provide the access for the traveling public from those smaller communities?

The CHAIRMAN. Mr. Pracht, you state that higher-speed passenger rail requires Federal commitment because there's not enough ridership, real estate, or other potential sources of revenue

to produce a viable private-sector business case to cover both up-front capital needs and longer-term cash and ridership risk. If the private sector and the states aren't willing to invest in projects because of the level of risk, what's the argument for having the Federal Government do it?

Mr. PRACHT. Well, I think it's the infrastructure side, Mr. Chairman, that I'm referring to. I think the infrastructure will require substantial capital investment, as has been the case, for example, with our highways and with our air-traffic control system and airports. And I think if that infrastructure can be put in place, and if assistance can be provided by both Federal and State government, the private sector can pick up the balance. And I think the returns in dividends will be there.

The CHAIRMAN. I thank you. I thank the witnesses. We have a vote on the floor. I appreciate your patience today. I'm sure you enjoyed the spectacle, and we appreciate very much your involvement in this issue, which is obviously a very, very important one and also of which yet we have been unable to achieve consensus for many years. We thank you for being here today.

This hearing is adjourned.

[Whereupon, at 12:25 p.m., the hearing was adjourned.]

A P P E N D I X

PREPARED STATEMENT OF HON. JOHN F. KERRY, U.S. SENATOR FROM MASSACHUSETTS

Mr. Chairman I want to thank you for holding this hearing and thank the witnesses for coming to testify. We are here today to discuss Amtrak and the future of intercity passenger rail in America. Throughout my tenure in the Senate I have strongly supported Amtrak because I believe it is in the best interests of our nation to maintain a viable national rail system. An effective and efficient rail system provides a transit alternative for millions of people, lowering our dependence on highways and airports and reducing energy consumption and pollution. It is essential that we maintain a comprehensive and diverse transportation infrastructure, both to sustain economic growth and aid national security. Indeed, it is more important than ever to raise the Federal investment in our national rail system in light of the dramatic effect the September 11 terrorist attacks had on our aviation system.

Let me begin by addressing Amtrak's financial situation. Much has been made of Amtrak's poor financial state over the past few years. Those opposed to subsidized passenger rail service point to mounting debt, poor management, and high labor costs as reasons to forgo nationalized passenger rail and concentrate solely on building more highways and runways. What they neglect to mention is that the government spends significantly more on our highway and aviation systems than on passenger rail, and that Amtrak is left to operate a national rail service—traversing forty-six states and employing 22,000 workers—on a shoestring budget of just slightly more than a billion dollars. In contrast, the Federal Government spent nearly $32 billion for highways and $15 billion for aviation in 2002. Although most of this money comes from fuel taxes and ticket and security taxes that are collected into a trust fund, it still amounts to a government subsidy, regardless of whether one views the taxes as "user fees." Amtrak does not benefit from such financial assistance, and because the Administration and its Congressional allies dislike the railroad it has been underfunded to near bankruptcy.

As an aside, I'd like to help debunk the myth that high labor costs and union pressure have led to Amtrak's poor financial status. Labor costs are not responsible for Amtrak's financial decline. Rather, Amtrak's financial instability can be traced to three decades worth of minuscule government assistance and questionable management by past administrators. The fact is, Amtrak employees have gone without a general wage increase and a new contract for three and a half years, and they have sacrificed a lot to help keep the railroad functioning. We need to ensure that Amtrak's budget is large enough to include wage increases for current employees, allow both parties to draw up a new contract, and attract a larger workforce if we can successfully expand service over the next decade.

Mr. Chairman, the ongoing debate over Amtrak's budget is absurd. Last year, Amtrak President David Gunn came to Capitol Hill and stated that unless Amtrak received a minimum of $1.2 billion for FY 2003 the railroad would go bankrupt. The President then proposed a budget of $521 million, which was obviously inadequate. The Senate then failed to pass an Amtrak reauthorization bill and what ensued last fall was a dramatic series of events that necessitated an emergency supplemental appropriation and a loan from the Department of Transportation (DOT) to keep Amtrak from going bankrupt. This is no way to do business.

There is no question that Amtrak suffered from poor management and was less than candid about its financial dealings in years past, and I certainly don't support throwing money at a broken system. However, I think David Gunn has done a sound job managing Amtrak with limited resources and that under his leadership the railroad is headed in the right direction. Since he took the helm as president, he has submitted detailed cost analysis and budget plans to the Congress outlining his vision for an efficiently run, cost-effective railroad. Just last week, Mr. Gunn unveiled a five-year, $8 billion recovery plan that would fix Amtrak's deteriorating infrastructure while allowing it to operate on a reasonable budget. The plan calls for an operating budget of $1.8 billion for FY 2004, a figure which would gradually de-

cline to $1.5 billion once the railroad's infrastructure has been upgraded. The Senate included $1.8 billion for Amtrak in its FY 2004 budget resolution and I hope that both house of Congress agree to this level of funding during the appropriations process. Senator Hollings has also introduced a reauthorization bill that would provide $4.5 billion annually for operations, infrastructure improvements, and high speed corridor development over the next five years. I strongly support Senator Hollings' bill and I urge my colleagues to support it as well.

The time has come to reach a consensus on this issue. Let's be clear, passenger rail is inherently unprofitable. Whether it's Amtrak, or a private company operation, national passenger rail will require government support. Amtrak was created in the early 1970s because private operators could not make a profit and were unwilling to continue offering passenger rail service. There is not a national rail service in the world that exists independent of public subsidies. We need to accept this fact and move on.

In closing I want to reiterate my belief that a larger Federal investment for Amtrak is both necessary and appropriate. The effects of a Federal commitment to passenger rail are indisputable; a larger investment means more jobs, less pollution, economic growth, and a dependable transit alternative to driving or flying. The amount of money we spend on rail represents a fraction of what we spend on highways and on the aviation system. In my view, it is inexcusable that among the industrialized countries the world's wealthiest and most innovative nation has the most neglected national rail system. We should upgrade the network, improve the infrastructure, establish more high speed corridors, and make Amtrak a practical choice for every American. In short, I believe that maintaining a strong, vibrant national rail system is good public policy and will instill a sense of pride among Americans. Thank you.

CONNEX NORTH AMERICA, INC.
Georgetown, MA, May 5, 2003

Ms. SHARON DASHTAKI,
Missouri DOT,
Jefferson City, MO

Dear Ms. Dashtaki:

Thank you for the opportunity to submit comments and suggestions relative to MoDOT's recent RFP for the operation of intercity rail passenger service between St. Louis and Kansas City, MO. While Connex did not submit a proposal in response to this RFP, we did:

- Obtain and carefully review all of the documents associated with this process
- Have a representative at the Pre-bid meeting
- Carefully consider all of the elements required to submit a responsive proposal

While we ultimately decided that it was not possible for us to submit a responsive proposal for this procurement, we do remain committed to pursuing these types of passenger rail contract opportunities whenever and wherever they become available if the terms and conditions allow for true competition and for successful service operation and contract compliance.

Simply, those factors were not present in this circumstance. Any time an agency is bidding an existing service, every effort must be made to create a truly competitive environment, a level playing field, or the incumbent operator will have too great an advantage. A common basis and equal footing must be established for all qualified proposers to have access to necessary facilities, equipment, systems and infrastructure. Adequate time must he provided for the preparation of well thought out service proposals, value-added enhancements and realistic, fair cost proposals. Finally, the operating environment must be developed that will permit mobilization, transition and safe, successful operation after service assumption by the new contract operator.

Again, many of these factors did not exist and there was not sufficient time to develop alternative solutions.

As stated earlier, however, Connex is dedicated to this type of contract opportunity and remains very interested in the future of Missouri's intercity rail passenger service. Connex's core business is the operation of passenger transportation services under contracts to local, regional and national authorities. We have more than a century of experience in operating public transportation services under contract, with emphasis on safety, punctuality, market research, demanding customer

service standards, extensive staff training and a knowledge of local and regional requirements.

Connex is the largest private passenger transportation company in Europe with over 40,000 employees operating contract passenger transport services on behalf of over 700 local, regional and national authorities worldwide. Connex operates a vast network of road, rail and maritime transportation services in a wide variety of institutional/contractual relationships in North America, Europe, Australia, the Middle East and Latin America. Within this global network, Connex today operates 25 passenger rail systems running over more than 2,500 route miles of rail network. In all, Connex operates approximately 7,000 trains a day, as well as 16,000 buses, and transports over one billion passengers a year safely and reliably. Connex is the only contract operator in the world providing a complete range of public transportation services, including intercity, commuter and regional passenger rail, light rail, heavy rail, trolley, bus and taxi.

In addition to this international experience, Connex is the majority owner of the Massachusetts Bay Commuter Railroad Company (MBCR) and has been selected by the Massachusetts Bay Transportation Authority (MBTA) to operate and maintain the sprawling Boston commuter rail system beginning on July 1, 2003. This commuter rail service provides 462 weekday trains on 13 lines encompassing almost 400 route miles, employs over 1700 unionized and management railroad employees and carries almost 150,000 daily passengers. Mobilization activities for this assumption of service are well underway and a July 1 service transition date from the current operator, Amtrak, to MBCR is on schedule.

If you have any questions about Connex's experience and qualifications or would like additional information about Connex, please let me know.

Thank you again for the opportunity to submit these comments.

Sincerely,

JIM STOETZEL,
Vice President, Contract Operations—Rail.

PREPARED STATEMENT OF ROSS B. CAPON, EXECUTIVE DIRECTOR, NATIONAL ASSOCIATION OF RAILROAD PASSENGERS

The National Association of Railroad Passengers is a non-partisan organization funded by dues and contributions from approximately 16,000 individual members. We have worked since 1967 to support improvement and expansion of passenger rail, particularly intercity passenger rail.

We strongly support Amtrak's request for $1.812 billion in fiscal 2004. While we appreciate that the Bush Administration's request for $900 million is 73 percent higher than its $521 million request for FY03, $900 million would be a 14 percent cut from what Amtrak received in FY03, is only half Amtrak's request for FY04, and is less than the $1.1 billion in annual Federal funding which Amtrak averaged during FY 1997–2002. Looked at another way, $900 million is 40 percent below the inflation-adjusted average for 1982–1984. More importantly, we understand that even the fiscal 2003 level of $1.05 billion would be a "shutdown" level if repeated in fiscal 2004.

Amtrak's 2004 request of $1.812 billion is meant to start to make up for funding shortfalls from the early 1990s—and, most immediately, to prevent serious deterioration of Northeast Corridor speeds, reliability and economic performance.

In light of constraints placed on the appropriators' ability to fund all transportation needs while dealing both with tight budget caps and firewalls protecting most non-rail spending, it is important for the authorizing committees to advance legislation that provides funding outside normal appropriations.

I. Specific Concerns Regarding Amtrak's Financial and Operational Status

Continual questions over Amtrak's near-term survival hurt its public image and in some cases ability to sell tickets. We hope a period of stable funding and of David Gunn's management will overcome that. It is also important that the impending expiration of the terms of existing Amtrak board members not trigger yet another crisis.

Eliminating routes offers no savings the first few years, and only limited savings thereafter. While arbitrated labor protection provisions make it hard to eliminate service and to close entire shops and terminals, those provisions do not interfere with ongoing operations. Indeed, most Amtrak employees are entitled to just five days' notice—and no severance. That is true for the New Orleans signal tower employees whose jobs are to be abolished because switches are remotely controlled from Chicago.

Like most observers, we are impressed with Mr. Gunn's work to date. For specific examples, see section VII.

Amtrak needs all the freight railroads, not just some of them, to handle its trains expeditiously. Amtrak pays incentives for good on-time performance. At BNSF's operations center in Fort Worth, it seems clear that BNSF places value on earning those incentives. In the huge control room, one of several huge screens displaying company data is devoted to various measures of BNSF's on-time performance for Amtrak.

Some of Amtrak's greatest difficulties are with Union Pacific. This partly results from UP efforts to address deferred maintenance on former Southern Pacific lines, which are largely single track. There is hope. Union Pacific Chairman and CEO Dick Davidson, *Railway Age* magazine's "Railroader of the Year," is quoted in their January issue saying, "We do want to be a good partner with Amtrak, and we're doing our best to get our railroad upgraded on the Amtrak routes and work with them to improve performance."

Years of underinvestment played a major role in creating today's financial and operational status. We welcome an emphasis on getting today's system to a state of good repair, but still more time is slipping by without meaningful expansion of service in this country. Capital funding for passenger-rail infrastructure will be needed whether it passes through Amtrak or not.

Even expansion ideas that should be relatively simple appear stalled right now, including service to Florida's East Coast and on the Los Angeles-Las Vegas route. Relatively minor capacity constraints—such as single track between Albany and Schenectady and east of the Cleveland station; and no place to store a train in Cleveland—cause big headaches for Amtrak scheduling and preclude consideration of some simple expansion ideas like Buffalo-Erie-Cleveland extension of an Empire Corridor train. Rerouting Amtrak's *Texas Eagle* onto Trinity Railway Express tracks between Dallas and Fort Worth would speed up the schedule, eliminate back-up moves and reduce Amtrak's contribution to congestion at the major freight junction just south of Fort Worth station, and let Amtrak stop at Centreport/DFW Airport station.

All trains that serve Chicago would provide faster, more reliable service if track investment projects there are implemented.

Some service changes are positive—dining car menus and restoration of checked baggage service in many places (see section VII). But Amtrak also faces a shortage of sleeping and dining cars. Checked baggage service is gone from much of the Northeast (including Providence and New Haven, effective April 28) and Amtrak's unboxed bicycle service has been reduced. Even if an entire baggage car cannot be justified, a way ought to be found to provide some form of this service for travelers who need it.

II. Capital Investments Needed to Return the Amtrak System To A "State of Good Repair"

It is important to get Amtrak back to a "state of good repair," and support what we have seen of Amtrak's capital plans. Moreover, Amtrak is not unique in the need for capital; this is true for large and small freight railroads, commuter, grade crossing safety, and security needs. A possible funding source for railroad capital investment is described in the next section. Congress has a responsibility to address the lack of balance in a transportation policy that provides assistance to highways and aviation but not intercity passenger rail.

Amtrak-owned rolling stock and facilities should be renewed and maintained to a particular standard. Investment should go beyond "good repair" to "improvement," such as catenary renewal that allows better running times Washington-New York, and perhaps expedited Metro North catenary work to get New York-Boston running times closer to three hours.

We support intermodal links that complement the rail network. There are opportunities for airport stations on today's network that are not yet fulfilled, such as Milwaukee, Oakland and Providence. BWI's plans for a needed fixed-guideway link between the Amtrak station and the air terminal—much publicized a few years ago—appear to have been shoved to the back burner. Overall, intermodal links are progressing, but too slowly in part because—for all the verbal attention that has been paid intermodalism—getting Federal funding remains a challenge.

III. Long-Term Viability of the Existing Amtrak Business Model

One's perspective on the long-term viability of the existing Amtrak business model depends on whether one agrees with DOT Deputy Secretary Michael Jackson's recent testimony that "the Federal Government must work with our state colleagues to configure and then transition to a system . . . whereby the Federal Government

provides specific capital investment in passenger rail infrastructure, while states assume any needed operational subsidy obligations. Again, we recognize that this cannot happen overnight."

It appears inconsistent to argue simultaneously that the Federal Government should end operating grants (albeit at some undetermined future time) while stating that "passenger rail is an important component of our Nation's transportation infrastructure."

We think increased state funding of operating grants for short-distance trains generally is unlikely until after (a) the Federal Government has created a genuine investment partnership with states which gives them an incentive to make substantial capital investments in the tracks such trains use; and (b) realization of at least some operating efficiencies as a result of such partnerships. Even this may depend on states recovering from what an April 21 *New York Times* report called "their worst financial crisis since World War II." The story said just 14 states and Washington, D.C., "have balanced budgets, while five states face budget gaps that are more than 9 percent of their total budgets. Four states face gaps of more than $1 billion." Alan Abelson, in his *Barron*'s column for April 28, wrote. "According to Stephanie Pomboy, who puts out the feisty and provocative economic newsletter MacroMavens . . ., the states are facing their worst budget crisis in history . . . As Stephanie observes, a conservative estimate is that the collective state budgetary shortfall this year will run $70 billion . . ."

We agree with Amtrak that the operating grants for the national network (a.k.a. long-distance) trains should remain a Federal responsibility. However, those trains will benefit from corridor investments, since national network trains either use corridor tracks or connect with corridor trains.

One could shut down the entire national network, and the Northeast Corridor would still require in excess of one billion dollars a year. At that point, however, there would not be adequate political support to secure that funding.

What is needed is a new funding source for rail capital investment.

We have no problem with ownership of the Northeast Corridor passing to the U.S. Secretary of Transportation, though we favor Amtrak retaining control of dispatching to the same extent that is true today. Also, we think—in the event of conveyance to DOT—Amtrak and its engineering people must have strong representation in the capital programming needs and the Amtrak operations people must have strong representation in the construction/renewal program to protect train operations and ensure a safe environment for the work to be done.

We *oppose* conveyance to private ownership, an approach that proved disastrous in Britain. We thought conveyance to states unworkable even before fiscal crises enveloped them.

The only important basis for our conditional support of conveyance of the Northeast Corridor to DOT is the possibility that it would be easier to address the Corridor's significant capital investment needs if the Secretary was accountable for funding the maintenance and improvements to the Corridor to ensure that it is safe and reliable for high-speed train operations.

An ownership change might also help reduce Amtrak's own, arguably unfair image as a "black hole" for money. For example, the New York City tunnels need $1 billion in safety improvement work, yet about 90 percent of the passengers using those tunnels are New Jersey Transit or Long Island Rail Road commuters. With the present ownership, however, that one billion dollars becomes a major contributing factor to Amtrak's black hole image.

With the highway and aviation systems under considerable stress, and with appropriators complaining that the new subcommittee structure has further reduced their ability to support "non-firewalled" programs like Amtrak, it is perhaps naive to think that changing ownership of the Northeast Corridor will solve its funding problems. We need a source for increased investment in rail infrastructure.

We commend to the Committee the concept of a Railroad Finance and Development Corporation, which the Railway Supply Institute has endorsed. This Corporation would address capital needs relating to high-speed rail in general, as well as to needs of freight short lines, and specific projects of importance to Class One railroads such as in Chicago. The corporation would sell bonds, eliminating fears many have about having Amtrak sell bonds, and the reluctance of some states to sell bonds. Of course, labor issues still would need to be addressed. But, as a matter of good tax policy, the bond approach would result in real construction projects in the railroad industry that will have many potential stimulative aspects that will improve the economy (such as by alleviating congestion in other modes and—as in Chicago—on the railroads themselves), create jobs, and have a ripple effect in the supply industry and those industries that provide component parts.

In addition, for budget purposes, it scores better than anything else Congress can do in this area. Every $100 in bonds sold results in only a $30 budgetary cost to the government (tax revenue loss).

The Corporation is envisioned as a private, non-profit, Federally chartered entity authorized to issue tax-credit bonds for capital investment in rail-related infrastructure not generally eligible for transportation trust fund expenditures under TEA–21. As endorsed by the Railway Supply Institute, the corporation would provide financial support for capital projects that:

- Develop higher speed intercity rail passenger services, including infrastructure and equipment;
- Meet the backlog of capital needs on the Northeast Corridor infrastructure;
- Provide efficient rail access to ports;
- Support development of intermodal terminals, transloading facilities and rail access thereto;
- Facilitate high frequency rail access to airport terminals;
- Enhance capacity on the Nation's rail freight network designed to enhance security, reduce congestion, improve air quality and improve efficiency;
- Support the capital needs of short line and regional railroads for infrastructure improvements to serve rural and smaller communities and accommodate 286,000-pound freight cars;
- Support relocation and/or consolidation of rail lines and facilities in urban areas.

Financing: Modeled on existing Federally chartered entities such as Fannie Mae, RFDC would be authorized to issue up to $50 billion in Federal tax credit bonds to states and public/private partnerships to finance eligible rail-related capital projects. Specific criteria to be included in the RFDC's authorizing legislation would govern project eligibility, selection, financing and repayment obligations.

RFDC would establish a principal sinking fund to secure payment of the principal at maturity. A 20 percent non-Federal match, contributed by state, localities. or other project participants, would form the primary basis of the sinking fund for each bond issuance, supplemented by additional Federal contributions as may be required.

Governance: The corporation would be governed by a Board of Directors appointed by the President. RFDC's function and authority would be subject to the oversight of the Congressional committees of jurisdiction.

The authorizing committees already have a long list of rail needs that they have been unable to fund through the authorization process because no matter how much is authorized there is no room in transportation appropriations to fund these needs out of the 30 percent of funds left over after guaranteed spending programs are addressed.

IV. Impact of Amtrak on Commuter Rail Operations

We are glad that the Administration "determined that the best means to ensure that Amtrak continues to provide [commuter] services is to see that Amtrak has sufficient funds to operate through the end of the fiscal year." We fear that a literal reading of the Omnibus Appropriations Act could lead to an immediate Amtrak shutdown if Amtrak were forced to "firewall" in advance enough funds to guarantee commuter rail operation.

Just as highways derive much of their economic effectiveness from the fact that they serve many different users, so also is common use of many tracks and facilities by Amtrak and commuter rail a source of economic effectiveness. An Amtrak shutdown would undo this economic effectiveness, with diverted traffic adding to highway and road system congestion, and depriving commuter rail and transit systems of revenues from connecting Amtrak passengers.

The best way to protect commuter rail reliability—and indeed to protect the significant contribution that Amtrak makes to the economy—is to "see that Amtrak has sufficient funds to operate" next fiscal year and the year after that.

V. Public Wants More Travel Choices, Not Fewer

Although public support for passenger rail was well established before September 11, 2001, as reflected in polls discussed near the end of this statement, the 9/11 catastrophe focused and energized public interest in having more transportation choices, not fewer, and thus in retaining and improving our national passenger rail network.

Because of the combined impacts of the "airport hassle" factor and fear of flying, people who formerly flew to avoid four-hour ground trips now accept ground trips

of about eight hours in order to avoid flying. Ironically, the majority of those trips are by car, even though plane travel remains far safer than driving.

Where good train service is offered in such markets, business is thriving even in the face of a weak travel and tourism industry. The public—by its purchase of tickets—has shown that it will ride conventional-speed services in large numbers in many markets. Such trains need not come anywhere near the speed of a TGV; they need only be reasonably fast and reasonably frequent to be attractive to many travelers.

During the first seven months of Fiscal 2003 (October–April), the following services posted travel increases in the face of extraordinary weakness in the travel and tourism markets. The percentages shown are increases in passenger-miles compared with the year-earlier period. (The passenger-mile—one passenger carried one mile—is the standard measure of intercity travel.)

- Chicago-Grand Rapids +30.7 percent
- New York-Pittsburgh *Pennsylvanian* +21.1 percent*
- Boston-Portland *Downeaster* service +12.5 percent
- *Pacific Surfliner* (Primarily San Diego-Los Angeles-Santa Barbara) +10.6 percent
- Chicago-New Orleans *City of New Orleans* +9.7 percent
- San Joaquin Valley Service +7.6 percent
- New York-Charlotte *Carolinian* +7.2 percent
- Chicago-Carbondale *Illini* +7.1 percent
- Chicago-Quincy *Illinois Zephyr* +6.7 percent
- Sacramento Area-Bay Area-San Jose +6.5 percent
- Chicago-Seattle/Portland *Empire Builder* +5.9 percent
- Chicago-St. Louis +5.8 percent

[* Primarily the result of restructuring the train to run at "passenger-friendly" rather than "freight-friendly" times.]

Reflecting the relationship between an aging population and interest in alternatives to driving, the American Association of Retired Persons in its new "Public Policies 2003" states, "Congress should support nationwide passenger rail service that is integrated and coordinated with regional, state and local passenger rail [and should] establish a dependable funding mechanism that insures continuing passenger rail service."

VI. Analyzing Route Financial Performance

DOT Inspector General Kenneth Mead, in February 27, 2002, testimony before the House Appropriations Subcommittee on Transportation, called operating grants needed for long-distance trains (what we call national network trains) "chump change" compared with "the annual capital subsidy required to continue operating" Northeast Corridor trains. He said national network operating losses are only about 30 percent of NEC capital *requirements*.

We offer the following comments about methods of measurement:

First, the passenger mile—one passenger traveling one mile—is the standard measure of intercity travel. Trip lengths vary widely and use of the passenger-mile reflects that. Consequently, "loss" per passenger-mile (or, preferably, the relationship between revenues and costs) are more meaningful ways to measure the relative efficiency of Amtrak's routes. To illustrate how results can differ, the FY01 numbers in the Amtrak Reform Council report showed that the *Southwest Chief* had the fifth best operating ratio but the fifth worst subsidy per passenger.

Second, the absolute numbers that have been widely quoted, though they exclude depreciation, are based on fully allocated costs (including, for example, a share of the Amtrak CEO's expenses) and thus exceed savings that might be realized by discontinuing a specific route.

Third, the *Sunset Limited* in particular has been hampered by exceedingly poor on-time performance on Union Pacific tracks, as discussed in Section I.

Finally, our Association strongly believes that the existing network is a skeletal foundation, from which the system should grow. Thus, the only purpose for ranking routes would be to identify where special actions might be needed to improve performance, not to identify routes for discontinuance.

We question the relevance of the planning process used to restructure the Northeast rail freight network in the 1970s. That network was very dense and arguably overbuilt, so that it was easy to take out countless miles of track without harming major markets. The Amtrak network by contrast is skeletal. The ability to take out individual routes without collapsing the system is severely limited because of the interrelationships among the routes in terms of shared revenues (connecting passengers) and shared costs (common facilities).

VII. Examples of Improved Efficiency at "Gunn's Amtrak"

David Gunn and his key people have impressive knowledge specific to railroading and to budget discipline, which appears to be paying off already.

Some changes are visible to passengers, including the now-consistent, dining-car requirement that sleeping-car passengers sign their names and room numbers. Meals are included in the sleeping-car charge, but not in coach fares. Reinstitution of the signature process—and an audit (comparing dining car checks with passenger manifests)—aims to determine more accurately food/beverage revenues and costs and to help eliminate abuse (e.g., coach passengers getting free meals).

The on-board snack bars are getting the ability to issue printed receipts to passengers which show just what was purchased and for how much. This improvement—long taken for granted by managers at most food outlets "on the ground"—enhances Amtrak's ability to monitor inventories and to make sure that the company gets all the money due to it.

A new frequency—the 10th Acela Express on the New York-Boston run—was added January 27 without increasing crew costs. The New Haven-Springfield got more frequent service April 28, thanks to more efficient use of crews and equipment. On the same basis, Amtrak added a Chicago-Milwaukee frequency last October.

Amtrak on February 10 transformed the *Pennsylvanian*, formerly a secondary, coach-only Chicago-Philadelphia train with an "express-friendly/passenger-unfriendly" schedule serving both endpoints at bad times. The train now runs New York-Pittsburgh on a passenger-friendly schedule. March and April financial results showed dramatic improvement from year earlier figures.

Amtrak restored seven-day-a-week staffing and checked baggage service at about 20 stations on April 28, most of which lost it a year ago. We believe this reflects a recognition that last year's action was done in haste and needed rethinking. Among the affected stations: Salinas and San Bernardino, Cal.; Champaign, Ill.; Meridian, Miss.; Columbus and La Crosse, Wis.; Greenville, S.C.; Houston, Tex.; and Pasco, Wash. Little Rock was added to this list effective May 23.

Amtrak is fixing, scrapping or selling equipment that has been out of use, realizing that there is a cost to the indefinite storage of such equipment. Elderly, costly-to-maintain coaches have been kept in service (especially on the New York-Philadelphia *Clockers*) while modern equipment that needed only minor repairs was sidelined; Amtrak is undertaking those minor repairs.

Amtrak is making good use of sizable inventories left over from previous projects cut short by funding problems. For example, Amtrak has found orange upholstery to use when overhauling coaches with worn upholstery of the same color. The end result may not be the color one would have chosen for the new century, but it is clean and new—and did not require any new purchase.

Amtrak is covering a lot of old carpeting with plastic, which is easier to clean and doesn't hold dirt, odor, or splashed coffee.

Amtrak's organizational structure has been flattened by elimination of the Eastern and Western general manager positions, so that the seven divisional general superintendents now report directly to the vice president of operations.

Amtrak announced January 24 that it would close its Chicago call center, the smallest of its three centers, at the end of December. Even if the number of agents added at empty desks in Riverside and Philadelphia equals the number of agent positions eliminated in Chicago, Amtrak expects to save $3 million a year in management, facility and technology costs. Any net reduction of agents—such as might be possible because of the continuing migration of business to the Internet—would increase the savings. Chicago reservation bureau employees have the right to "follow their work," but employees who reject this option are not entitled to severance (labor protection) payments.

Appendix I. Polls Indicate Public Support for Passenger Rail

Polls over the years have consistently shown public support for faster, more frequent, and reliable passenger trains, including two national polls last summer. A poll conducted by CNN/Gallup/*USA Today* near the height of Amtrak's June, 2002, cash crisis (June 21–23) found that 70 percent of the public support continued Federal funding for Amtrak. Similarly, *The Washington Post* found that 71 percent of Americans support continued or increased Federal funding for Amtrak (August 5, 2002, article reporting on July 26–30 poll).

An October 27, 1997, nationwide Gallup Poll sponsored by CNN and *USA Today* asked whether "the Federal Government should continue to provide funding for the cost of running Amtrak, in order to ensure that the U.S. has a national train service, or the Federal Government should stop funding Amtrak, even if that means the train service could go out of business if it doesn't operate profitably on their own."

Favoring continued funding were 69 percent of respondents, with 26 percent against (and 6 percent other responses). State-specific polls also have been positive.

Wisconsin: A poll by Chamberlain Research Consultants of Madison, released by the Wisconsin Association of Railroad Passengers in June 2002, indicated that:

- 77 percent of Wisconsin residents "support a nationwide system of passenger trains with increased routes, frequencies, and shorter travel time."
- 76.6 percent said they would use the trains if the planned nine-state Midwest Regional Rail network becomes available to them.
- 54.3 percent responded positively to this question: "If Federal funding is available for improving intercity passenger rail services, Wisconsin may try to attract these rail improvement funds by pledging to pay for a portion of the project with state money as we do now with highway and airport projects. Is this something you favor, oppose, or neither favor nor oppose as a way to raise money to develop passenger rail services in Wisconsin?"

The survey, which was conducted over a week-and-a-half ending in mid-February, took place as the future of Amtrak and the need for a nationwide rail passenger service was being debated by Congress, and as Wisconsin state government wrestled with its most serious financial crisis ever. More information is available at *http://www.wisarp.org.*

Ohio: The Ohio State University Center for Survey Research (OSU-CSR) released a poll ("Tracking Ohio") on March 8, 2001, which found that 80 percent of Ohioans want the state to develop passenger rail service. The following question produced a 74 percent positive response: "If Ohio had a modern, convenient and efficient passenger rail network, do you think it would improve the quality of life in Ohio or would it have no effect? About two-thirds (65 percent) of respondents said state money should be used to attract Federal passenger-rail funding to Ohio, if such Federal funding were available. More than half (53 percent) said the best way to relieve road traffic congestion is to "improve all forms of transportation including mass transit and high-speed rail." The statewide poll was conducted by telephone January 2–31, 2001, as part of the OSU-CSR's monthly Buckeye State Poll. The margin of sampling error was no more than +/−4.3 percent.

New York: In 1998, the Marist College Institute for Public Opinion (Poughkeepsie) released results of a poll it conducted of New York State registered voters regarding state investment in intercity rail passenger service (trips longer than 75 miles one way). Findings: 82 percent believed that having modernized intercity passenger train service is at least as important as having good highways and airports (of this figure, 12 percent felt rail service was even more important); 87 percent favored an increase in government spending for intercity passenger train service. The poll was based on approximately 600 responses with a margin of error of no more than +/−4 percent. It was commissioned by the Empire State Passengers Association and the Empire Corridor Rail Task Force.

Appendix II. Benefits of Amtrak and Passenger Trains

In crowded corridors, passenger trains represent vital people-moving capacity and help relieve air and road congestion. This benefit will grow over time as travel demand continues to grow while airport and highway construction face more intense local opposition and ever-tighter limits on funding and sheer availability of land.

Amtrak is far safer than auto travel,

During inclement weather, Amtrak is safer and usually more reliable than airplanes and buses. Amtrak was the only thing going in the Northeast in this year's President's Day storm.

In most cities, Amtrak helps mass transit, downtown areas and transit-dependent people by serving—and increasing the visibility and economic viability of—transit-accessible downtown locations. Amtrak feeds connecting passengers to transit. Amtrak shares costs with transit at joint-use terminals and on joint-use tracks. Positive impacts have been observed even in small cities with minimal Amtrak service. Mayor John Robert Smith of Meridian, Miss., on Amtrak's New York-Atlanta-New Orleans run (one train per day in each direction), says property values have tripled in recent years around the railroad station, site of a relatively new intermodal terminal.

By contrast, new airports intensify energy-inefficient suburban sprawl and stimulate auto-dependent development. This leads to the social costs of getting transit-dependent people to work, or the need to address the consequences of their not working.

Amtrak is important to those who cannot fly due to temporary or permanent medical problems, and to those for whom physical and financial considerations rule out driving long distances, for example, seniors and students. (The editor of *Frequent*

Flier, forced by doctor's orders to take the train to Florida, wrote a favorable column about the trip.) Indeed, some of those medical problems have come about as a result of flying.

Amtrak serves many communities where alternative transportation either does not exist, is not affordable or only serves different destinations. Trains can make intermediate stops at smaller cities at minimum cost in energy and time. This is apparent in corridors—where benefits go to such cities as Jefferson City, Lancaster, Trenton, Kalamazoo, Wilmington, Bloomington/Normal and Tacoma. It also means, for example, that the *Empire Builder* can stop at eight small cities in Washington (plus Seattle and Spokane); ten in Montana plus, depending on the season, East Glacier Park or Browning; and seven in North Dakota without compromising the train's appeal to those riding between Chicago or Minneapolis and Seattle or Portland. Similarly, the *California Zephyr* serves five Colorado points (plus Denver) and five points each in Iowa and Nebraska. (The *Southwest Chief* serves yet another Iowa point, Fort Madison.) Also, Amtrak serves 16 North Carolina points.

[Here is an example of long-distance travel that I encountered on the *Southwest Chief*: a mother and her 14-month-old child rode from Garden City, Kans., to Barstow, Cal. The family was moving to California; the husband was driving the U-Haul; the wife and child were on the train "so the move would not be so traumatic" for the child. They did not consider the plane because they felt it would be too cramped for the child. Also, airfare out of Garden City was prohibitive.]

Amtrak is part carrier (like United and Greyhound) *and part infrastructure*. Thus Amtrak provides important passenger-moving capacity, unlike airlines and bus companies. In much of the Northeast Corridor and a few other places, Amtrak is the rail equivalent of the air traffic control system, airport authorities *and* airlines. (Among the "other places": the Chicago terminal, part of the Chicago-Detroit line and the track between Albany, NY, and the Massachusetts state line.) Elsewhere, Amtrak is the only carrier with legal access to freight railroads' tracks—a *quid pro quo* for relieving the railroads of their passenger-train obligations in 1971.

Amtrak's national network trains are transportation "melting pots." Intercity travelers by all modes had an average annual income of $70,000. The comparable figure for travelers on Amtrak's national network trains is $51,000. [This is 1999 data inflated to 2002 and thus probably good for 2003 as well.] However, the majority of passengers on these trains ride coach. Surveys available to us six years ago indicated that, for 30 percent of coach passengers traveling over 12 hours, average income was less than $20,000 (for 11 percent, it is less than $10,000). Obviously, most standard- and deluxe-room sleeping car passengers have considerably higher incomes and pay much higher fares. Nonetheless, anyone who characterizes these trains as land versions of cruise ships should try walking the coaches, especially at night.

Trains, especially on longer trips, offer a form of social contact almost lost in this country today—the opportunity to meet and relax with total strangers that one may or may not ever see again.

Amtrak over much of its network enables one to enjoy gorgeous scenery in total comfort. Some examples: the Connecticut and California coastlines, the Hudson River in New York, the Colorado Rockies, the mountains of Vermont and northern New Mexico, Glacier Park in Montana and West Virginia's New River Gorge.

Amtrak uses only 79 percent of the energy airlines use to move a passenger a mile, and only 22 percent of the energy general aviation uses (to do the same). This statement is based on the following 2000 data from the Oak Ridge National Laboratory's annual Transportation Energy Data Book (Edition 22, published September 2002) and available online: Amtrak 2,902 British thermal units per passenger-mile; Airlines 3,666; General aviation 12,975. *Amtrak is much less polluting* than airplanes. (Energy efficiency is a good proxy for air pollution).

Thanks to a growing array of *connecting buses* available with train travel in a single ticket transaction, *Amtrak puts people on intercity buses who would not otherwise have considered using them*. "Thruway" is Amtrak's copyrighted name for connecting buses that can be booked and ticketed through Amtrak's reservation system. Thruways first developed in a big way in California, where the state underwrites an impressive network of dedicated, feeder buses. Elsewhere, depending on the situation, Amtrak or the private bus companies themselves bears the financial risks for many Thruway runs.

Appendix III. Subsidies

Mr. Jackson's April 10 statement notes that "highways, transit and aviation are, unlike rail, funded by true user fees and also by state investments. Even the most ardent rail supporters evince little interest in a new Federal passenger rail ticket tax."

This statement requires two important modifications—recognition of the huge amount of "non-user" public funds (and related policies) that support highways and aviation, and of the support inherent in how the user fees are handled.

General Funds

A total of $34 billion in 2001 highway spending came from *non-user* sources in all levels of government (while $10 billion in highway user payments went to "non-highway purposes" Table HF–10, Highway Statistics 2001).

In FY 2003, general-fund support for FAA Operations jumped by $2.2 billion (from $1.1 billion to $3.2 billion) and thus supported 46 percent of the total cost of $7.0 billion. At the same time, the trust fund (user payment) contribution likewise fell by $2.2 billion (from $6.0 billion to $3.8 billion).

Federal Matching Funds—Nothing for Intercity Passenger Rail

It is generally acknowledged that an effective capital investment program fosters operating efficiency. Federal policy, however, encourages states and local governments to invest in highways and aviation, where Federal funds cover 50–80 percent of project costs, and not on railroads, where Federal funding generally is zero. Completely irrespective of the merits of any given project, it is difficult for states to devote scarce resources to rail projects that generate no Federal support, particularly when that means passing up Federal funds for road and aviation projects.

User Fees and Tax Policies

We recognize that, if only for symbolic purposes, a ticket tax is a possible component of a rail funding program. However, at least in the early stages, it would be no "silver bullet". If Amtrak is successfully setting fares to maximize revenue, an additional surcharge could cause revenues to fall. Alternatively, if the ticket tax payment is removed from Amtrak's income, then the operating loss grows by a like amount and must be made up from some other Federal payment, with no net gain (and more work for accountants).

A mode-specific trust fund system insures massive continued investment in the modes that are already dominant, regardless of whether they are the best solution for tomorrow's transportation problems, and regardless of the needs of the users paying those taxes. A large proportion of them are soon-to-be senior citizens who will place greater value on non-automobile travel choices.

User fees clearly do not cover environmental and other external costs associated with highways and aviation.

The savings associated with financing an airport project with tax exempt, government-backed bonds rather than with commercial loans sought directly by the airlines is substantial. The various sources available to fund airports, like the mode-specific trust fund system, help reinforce the dominance of modes that are already dominant whether or not they offer the best solution for today's transportation problems.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO HON. KENNETH M. MEAD

Question 1. The Office of the Inspector General had planned to conduct a review of the designated high-speed rail corridors in the United States, focusing on demand studies, expense projections, estimated capital requirements, and proposed implementation schedules. The review would also evaluate the implications these projects would have on Amtrak and the options for restructuring passenger rail service. I understand that this review unfortunately is now on hold. Why have you postponed conducting this review?

Answer. Our Status Review of the Designated High Speed Rail Corridors was put on hold last summer when we were tasked with oversight of certain conditions included in Amtrak's Railroad Rehabilitation and Improvement Financing Program (RRIF) loan. We did not have sufficient resources to adequately perform both tasks concurrently. We have since completed most of our work on the RRIF loan conditions and hired an additional staff economist with a background in high-speed rail.

Question 1a. When do you expect to begin this review?

Answer. We restarted this review in May 2003, and plan to issue a report to the Secretary and Congress by the end of 2003. Our report will cover each of the current, ten high-speed rail corridors.

Question 2. In your testimony, you cautioned against any plans for Amtrak that call for the separation of the infrastructure from the operating side of the railroad. You cited the disastrous experience in Great Britain after that country allowed a

for-profit entity to operate the infrastructure. Has the DOT IG conducted any studies of privatization schemes used in other countries and how these plans could be applied to Amtrak?

Answer. No, we have not conducted any studies of our own on privatization schemes used in other countries. We have, however, reviewed the results of some studies conducted by others. These formed the basis for the points made in our testimony.

The experience in Great Britain shows that an infrastructure company that is focused on its bottom line may make decisions that are in its own best interest financially, but which may affect the safety or efficiency of rail service operations. We do not want to encounter the same problem.

It should also be noted that Amtrak estimates its capital needs will be more than $5 billion over the next 5 years. This level of investment does not include system upgrades or high-speed rail investment and is likely at the low end of what will need to be spent on the U.S. passenger rail infrastructure regardless of which structure is deemed appropriate. Changing the ownership or organizational structure will not eliminate the need for this funding.

Question 3. You stated in your testimony that the elimination of Amtrak's long-distance trains will not save the company enough money to make a meaningful difference in its financial health. The elimination of these trains, however, would cause the railroad to lose the "political glue" that has supported intercity passenger rail and the national economic interest in assisting transportation in all of its forms. In other words, passenger rail in the U.S. would lose a lot more than long-distance service. How do you believe that this loss of "political glue" would affect other aspects of Amtrak's operations?

Answer. Amtrak is primarily dependent upon Federal subsidies to cover the capital needs and operating losses across its entire system. These subsidies are the result of a broad base of Congressional support from members in many States across the country. In the event long-distance trains were eliminated, this broad base of support, or "political glue," would likely deteriorate in a substantial manner. It is uncertain whether Amtrak would be able to garner enough support to fund the capital needs and operating needs of other corridor services around the country.

Question 3a. What kind of effect would the elimination of one or two long-distance trains, perhaps the worst financial performers, have on the national passenger rail system?

Answer. The elimination of one or two long-distance trains would not materially change Amtrak's train operating expenses initially due to labor protection payment obligations. In addition, Amtrak's overall overhead expenses would probably not be significantly reduced by the elimination of just one or two routes, though there would likely be some savings.

FRA estimated Amtrak's 2003 avoidable operating costs, excluding consideration for labor protection obligations, for Amtrak's long distance trains at $85 million (this excludes two long distance routes with positive contributions on an avoidable basis). The highest annual per train avoidable operating loss was about $13 million.

Question 4. Do you believe that passenger rail can be made to be profitable without substantial government subsidies?

Answer. No, I do not. Substantial capital subsidies will be required for any foreseeable passenger rail system in this country. Passenger rail may be operationally self-sufficient if it is time and cost competitive with auto and air over distances of up to 500 miles. However, this would require major improvements to existing infrastructure or new technology, both of which will require substantial government subsidy. Also, new agreements with freight railroads will have to be forged.

Question 5. Of the many reform proposals you have heard about in recent years, are there any that you believe could have some merit for the future success of Amtrak?

Answer. I believe that transitioning Amtrak to a system that is more directly linked to State decision makers would lead to more success for Amtrak. Amtrak's route structure needs to be responsive to today's travel environment and the best way to achieve this is through developing higher-frequency, higher-speed corridors. These corridors can be connected by less frequent corridor feeder services to maintain a national network as a third alternative to air and auto. FRA estimates only 20 percent of the passengers on Amtrak's long-distance trains travel from end-point to end-point. The remaining 80 percent travel on intermediate portions of the long-distance routes.

As we see it, the corridor/feeder concept will retain service to most, if not all, current stations. In fact, it may increase service to many stations and allow for more desirable daylight connections between corridors. In addition, the decisions con-

cerning which services should be offered along with part of the funding responsibility will lie with the states.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. FRANK R. LAUTENBERG TO HON. KENNETH M. MEAD

Question. What actions are the Department of Transportation taking to ensure the safety of the 117,600 daily travelers who use the Amtrak tunnels under the Hudson River? What steps must be taken to address remaining needs of the tunnels?

Answer. The Department is working closely with Amtrak and the Long Island Railroad (LIRR) to implement a Tunnel and Life Safety Program with a projected total cost of nearly $900 million. Over the next 5 years, investments will include construction of three major ventilation structures, installation of a fire standpipe system, and other ancillary projects. Amtrak plans to contribute $179 million to these projects through 2007 ($3 million of which is from New Jersey Transit (NJT)) and LIRR will contribute $184 million.[1] Amtrak received $100 million in the Department of Defense appropriation which was signed into law on January 10, 2002 specifically for these projects. The scope and completion of the remainder of these projects is dependent on future appropriations.

While Amtrak and the other users of the Penn Station New York river tunnels have been investing in the life-safety program since 1976, their efforts have focused on prevention, such as keeping track, signals, and equipment in a state of good repair rather than emergency response. Since the terrorist attacks on September 11, 2001 the focus of investment has shifted and about $22 million has been spent installing new lighting along with emergency directional signs and location mile markers in all 6 tunnels. In addition, new fire-resistant cross passage doors have been installed. Contracts have been awarded for the standpipe construction and ventilation projects with completion projected in FY 2005 and FY 2007, respectively.

Additional projects necessary to complete the program include short-range projects totaling $81 million and long-range projects totaling $453 million. However, funding sources for the remaining projects have yet to be identified.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO DAVID L. GUNN

Question 1. Amtrak's press release on the five-year plan states that "Amtrak will not undertake new train services unless any operating loss is fully covered by the state or states it serves." If this standard is appropriate for new service, which I believe it clearly is, why not apply this standard to all of Amtrak's operations?

Amtrak's current statutory mandate is to "operate a national rail passenger transportation system." 49 U.S.C. 24701. Discontinuing all trains that incur operating losses not reimbursed by states would be inconsistent with that mandate, since it would eliminate all Amtrak service outside of the Boston-to-Washington Northeast Corridor and a few short corridors elsewhere. Decisions about whether to change Amtrak's statutory mandate are policy decisions that are appropriate to consider as part of a comprehensive discussion on the scope, size and expectations of intercity rail passenger service in the United States.

States provide significant funding to support the operation of individual short distance routes because short distance trains provide direct and easily identifiable benefits to individual states. Outside of the Northeast Corridor, short distance trains generally serve, and therefore primarily benefit, one or at most two states. Their schedules are geared to local markets, and most of their passengers are making intrastate trips.

By contrast, Amtrak's 16 long distance trains are part of a national multi-state network. Individual long distance trains travel through as many as a dozen different states, carry passengers destined to all of the 46 states that Amtrak serves, and are scheduled to serve the major endpoint cities at which they connect during daylight hours (which means that some states on each train's route are served only at night).

Because long distance trains serve national needs, they provide much more limited and varying levels of benefits to the individual states through which they operate than do the short distance Amtrak trains that receive state support. Elimination of Federal support would result in the demise of the long distance train network

[1] Amtrak revised its agreement with NJT so that no additional NJT money will be contributed to the tunnel project in future years. The revised agreement calls for Amtrak to match NJT funding for projects elsewhere on the Corridor with equal expenditures on the tunnel project.

currently operated by Amtrak, because states would not assume the Federal Government's historical role of supporting interstate long distance trains. The best evidence of this is that, in Amtrak's 32-year history, no state has ever offered to fund the operating losses of an Amtrak long distance train, even when faced with the loss of all Amtrak service.

It also bears noting that states that support Amtrak short distance services today are hard pressed to continue even their current levels of support. When Amtrak sought to increase state support for short distance services last year, we were advised by a number of states that they were simply unable to pay more. Amtrak's new policy of requiring all states to pay the full direct operating costs of state supported services, and the fiscal crises that nearly all states currently face, have led a number of states to advise Amtrak that they may have to discontinue existing state supported services by the end of this year.

Question 2. The new five-year plan includes capital funding for replacing the Thames and Niantic bridges in Connecticut; refurbishing 200 miles of catenary on the Northeast Corridor, replacing Amtrak's dispatching centers in Boston, Philadelphia, and New York; and performing life safety work in the New York Penn Station tunnels. How much of the capital burden will be borne by the commuter authorities such as New Jersey Transit and the Long Island Railroad, which operate the majority of the trains on the Northeast Corridor?

Answer. Capital investments from Northeast commuter agencies are projected at $428 million over the five-year plan, or approximately 19 percent of total estimated cost of infrastructure improvements in the Northeast.

With respect to the specific projects referenced, it should be noted that commuter trains do not operate over the Thames River Bridge, and that only one commuter train per day operates over the Niantic River Bridge.

Question 2a. Will the capital requested for the next five years be sufficient to complete all of these projects, or will some additional capital still be needed in subsequent years?

Answer. The capital requested covers the estimated costs of completing the specific major projects identified in Amtrak's strategic plan by the end of FY 2008 with the following exceptions:

- As indicated in the strategic plan, the New York Tunnels Life Safety program will continue beyond FY 2008.
- The planned replacement of the Portal River Bridge over the Hackensack River in Northern New Jersey in partnership with New Jersey Transit is expected to start in FY 2008 but will be completed in subsequent years.

As indicated in the strategic plan, normalized capital expenditures on other projects will continue to be required after FY 2008.

Question 2b. In the past, the DOT Inspector General has criticized the millions of unsubstantiated cost savings assumed in Amtrak's business plans. What cost savings are assumed in the latest five-year plan and can you account for how all of the savings will be achieved?

Answer. The operating cost savings projected in Amtrak's business plans will reach their maximum level—$120 million on an annualized basis—in FY 2008, the final year of Amtrak's five-year plan. That amount equals less than 4 percent of Amtrak's projected operating budget in that year. We believe that cost savings of this magnitude are achievable, given the inefficiencies in Amtrak's current operations due to the deteriorated condition of its infrastructure and equipment (which the capital program will address) and Amtrak's current work rules (which Amtrak intends to address in pending labor negotiations). Because Amtrak will continue to provide regular and detailed reporting on its financial performance, and DOT now provides funding to Amtrak through a grant-making process that requires Amtrak to submit detailed financial information, Congress and Amtrak's financial overseers will know whether Amtrak is on track to achieve this target.

Question 2c. Assuming Congress approved the $8.2 billion request, after the next five years, how much Federal support would Amtrak need on an annual basis?

Answer. As indicated in Amtrak's Strategic Plan, the required level of Federal support will decline to approximately $1.5 billion in FY 2008, the fifth year of the plan. Given that the plan will restore much of Amtrak's infrastructure and equipment to a state of good repair, Amtrak anticipates that its annual need for Federal support will remain at approximately that level, adjusted for inflation, for the foreseeable future following FY 2008 if Amtrak continues its current level of operations. Over time, some fluctuations may occur due to the potential need to replace certain major infrastructure assets on the Northeast Corridor, and major increases will be

required when a significant portion of Amtrak's existing equipment fleet needs replacement.

Question 2d. What does Amtrak's long-term debt amount to at the end of your five-year plan?

Answer. At the end of the five-year plan, FY 2008, Amtrak's long-term debt balance, including the current portion of long-term debt, is projected to be $3.1 billion. Excluding defeased leases the balance is projected to be $2.2 billion.

Question 3. DOT just completed an analysis showing that the long distance trains lose $547 million on a fully allocated basis, excluding depreciation and interest. Whether the savings is $300 million, as you have indicated, or $547 million, that seems like real money to me. Don't you agree?

Answer. There are several different ways of measuring the financial performance of long distance trains:

- On a fully allocated basis, excluding depreciation and interest but including a share of common costs that benefit other trains and that would remain even if all long distance trains were discontinued, Amtrak's long distance network's losses are forecast to be approximately $547 million a year.
- On an avoidable cost basis, which includes only costs estimated to be eliminated (based upon a 2002 study) if all of Amtrak's long distance trains were discontinued, losses are estimated to be approximately $300 million a year. This is the approximate amount that would be saved in the sixth year following the discontinuance of all long distance train service. (During the first five years, these savings would be offset in large part by labor protection costs and other shutdown costs.)
- Using the Department of Transportation's definition of avoidable costs, it is projected that, in FY 2003, the aggregate net avoidable losses of the 17 individual Amtrak long distance routes will be $68 million. This lower figure, which does not take into account the cost of labor protection during the first five years after discontinuance or other shutdown costs, reflects the fact that the elimination of individual long distance routes would produce relatively small savings because many shared costs incurred for the benefit of the remaining long distance trains would still be incurred.

We agree that these amounts are "real money."

Question 4. You have stated that over the long-term, eliminating the long-distance trains would only save $300 million on a fully allocated basis. But does this include needed capital investments to keep the trains in operation?

Answer. The $300 million in avoidable costs associated with continuing all long distance trains does not include capital costs.

Question 4a. How much capital would your five-year plan invest in long distance trains to improve stations, equipment and other capital items?

Answer. Direct capital investment for long-distance service is estimated at approximately $800 million over the five-year period, primarily for fleet and facilities.

Question 5. As required by the Fiscal Year 2003 Omnibus Appropriations Act, Amtrak recently submitted a report on actions to reduce the financial burden of the long distance trains on the Federal treasury. How much will the actions cited in the report reduce needed Federal subsidies?

Answer. As indicated in the report, Amtrak projects that the actions specific to long distance trains that are detailed in the report will reduce Amtrak's subsidy needs in FY 2004 and subsequent years by approximately $17 million when compared to the level of subsidies that would have been required had these actions not been taken. It should be noted that Amtrak's FY 2003 budget reflects the projected savings/revenue increases (approximately $6 million) that Amtrak expects will be realized from the implementation of certain of these actions during FY 2003. As noted in the long distance report and the strategic plan, Amtrak is also taking other actions, not specific to long distance trains, to reduce its Federal subsidy needs.

Question 5a. What is Amtrak doing to reevaluate the strategy for the long distance trains? Have you, for example, considered modeling the long distance trains after the Alaska Railroad, which markets vacation packages that include a train ride?

Answer. Amtrak has recently initiated a number of pricing actions and promotions to make its long distance trains more attractive to leisure travelers during a period when there has been an unprecedented decline in leisure travel by all modes. They include increasing Amtrak's group discount from 5 percent to 20 percent, and promotional discount programs to encourage ticket purchases during the off-peak winter and early spring periods. These actions have generated additional

revenues and ridership on long distance trains. Long distance train ridership was up 19 percent in April compared to a year ago.

Unlike most of the travel industry, Amtrak has chosen to retain travel agent commissions for long distance trains (while eliminating them for short distance trains) in order to encourage travel agents to promote Amtrak to high revenue customers looking for a "cruise-type" experience. Dining car menus have been revamped so that passengers traveling on longer trips will have different choices of entrees each day. Amtrak offers dozens of vacation packages that, for a single price, combine a train trip with other travel services such as hotel accommodations; sightseeing tours, rental cars, and travel by other modes. These packages are described in Amtrak's "Amtrak Vacations" brochure, a copy of which is attached.

Amtrak has also eliminated most of its express cargo business, and reduced the volume of mail that it carries on long distance trains, in order to improve financial performance, shorten travel times, and eliminate delays due to mail and express car switching at intermediate stations.

Question 6. As you know, several states are considering or have considered competitively bidding corridor service. A representative from Herzog testified about his company's experience in trying to bid to operate service between St. Louis and Kansas City. It appears that Amtrak initially informed the state of Missouri that the required state subsidy for the "Mules" service would rise from $6.2 million to $7.9 million but that when the state indicated it would bid out the service rather than agree to pay $7.9 million, Amtrak miraculously found a way to reduce the subsidy request by $1.5 million, to $6.4 million, or only a $200,000 increase. How was Amtrak able to justify this reduction?

Answer. The allegation that Amtrak lowered its price to the State of Missouri for operating passenger rail service between St. Louis and Kansas City when Amtrak became aware that the State planned to bid out the service is not correct.

At Missouri's request, Amtrak provided the state in November of 2002 with a preliminary cost estimate of $6.8 million to $8.9 million for operating the "Mules" service in FY 2004, depending upon the level of services Missouri selected, with the caveat that the actual cost would be based upon Amtrak's uniform Route Contribution Analysis (RCA) costing methodology, which was then under development. The reduced Amtrak cost estimate to which the question refers was formally communicated to Missouri on December 20, 2002, when Amtrak sent letters to all states that fund state supported services advising them of the payments from states that would be required under RCA. Because RCA eliminated inequities in the payments made by the various states, some states' projected payments decreased while others' increased.

Herzog did not announce its interest in operating the Missouri service until January of 2003, and Missouri did not issue its RFP until March of 2003. The reduction in Amtrak's projected charges to Missouri was communicated to the state before these events occurred. This reduction resulted from the application of a new, uniform, costing methodology for all state-supported trains, and had nothing to do with the Missouri's subsequent decision to bid out its service.

Question 6a. If Amtrak is able to use its Federal subsidy to cover overheads, how can there be fair and open competition with the private sector?

Answer. The current statutory scheme is not intended to create "fair and open competition" between Amtrak and private entities that wish to operate selected intercity rail passenger services currently operated by Amtrak. In particular, other parties do not possess Amtrak's essential statutory rights to require freight railroads and regional transportation authorities to provide access to their rail lines and facilities for intercity rail passenger service, and to base payments for such access upon incremental cost (with any payments above incremental costs based upon quality of service).

It bears noting, however, that some of the other parties who have expressed interest in operating intercity rail passenger services enjoy significant labor cost advantages over Amtrak, because they limit themselves to intrastate operations and therefore are not obligated to pay the significant railroad retirement taxes that Amtrak pays.

Question 6b. Why did Amtrak deny Herzog the ability to tie into Amtrak's national reservation system? Given that the government subsidizes Amtrak, why shouldn't Amtrak's reservation system be available to any operator of intercity passenger service?

Answer. Herzog approached Amtrak about the possibility of using Amtrak's reservation system less than three weeks before Herzog apparently planned to submit a bid that was premised upon access to Amtrak's system. Amtrak had never sold

access to its reservations system to third parties and, until Herzog's request, has had little occasion to ever consider doing so.

While Amtrak does not object in theory to the potential use of its reservations system by other intercity rail providers, there are a number of complex issues that would have to be resolved and negotiated before this would be possible. This could not have been accomplished in the context of a last minute request on the eve of a looming RFP deadline. It is extremely doubtful that the inability to resolve this minor issue had any bearing on Herzog's decision not to compete for the operation of the Missouri service, given that much more significant and costly issues, such as the cost of access to freight railroads' tracks, remained to be resolved when Herzog decided not to bid.

Question 7. Several states, including California, Oregon, and Washington have invested significant state dollars to develop higher-speed rail corridors. Yet the entire $2.8 billion cost of the Northeast Electrification project and the Acela train sets was borne by the Federal Government. Why should the Northeast Corridor states essentially get a "free ride"? Shouldn't intercity rail service be funded the same way for all the states?

Answer. Intercity rail should be funded the same way for all states.

Amtrak has long taken the position that the Federal Government should provide funding for capital investment in rail corridors around the country, as it has done for the Northeast Corridor. Amtrak has supported a number of proposals over the years to create a Federal-state partnership for investing in new and existing rail corridors and believes that the full economic, transportation and environmental potential of these corridors cannot be achieved without such Federal investment. The Northeast Corridor demonstrates the power and benefits of Federal rail investment—the regional economy and transportation system genuinely depend on Amtrak and commuter rail service operating on the Northeast Corridor. This success can be duplicated elsewhere and Amtrak continues to support enactment of a Federal-State rail capital partnership program. Even the Administration, in testimony before your Committee, indicated that this is a likely approach as part of their plan for intercity passenger rail.

With respect to the particular examples referenced in the question, it should be noted that the Acela trainsets were paid for with private financing.

Question 8. According to your testimony, you consider it a myth that the private sector is interested in operating intercity services. In light of your statement, how do you account for the MBTA's (Massachusetts Bay Transportation Authority's) new contract with Connex? North Carolina's contract with Herzog for equipment maintenance? The state of Missouri's effort to contract out the "Mules" service? California's current study of the merits of contracting out its intercity service?

Answer. The "myth" is that the private sector will operate intercity rail passenger services without subsidy. This will not happen.

The MBTA contract involves a publicly subsidized commuter rail service, not an intercity service. Many companies, including Amtrak, compete for profitable commuter rail service contracts. It bears noting that the new operator will be charging the MBTA considerably more than the MBTA was paying Amtrak, which had been operating the MBTA service but decided not to compete for the new contract.

What private companies are uniformly *not* interested in doing is providing intercity rail passenger services without guarantees of significant governmental subsidies that are sufficient to assure them of a profit. The reason is that intercity passenger rail operations *are not profitable*, as the freight railroads learned to their great detriment prior to the formation of Amtrak.

Question 9. The Northeast Corridor is a valuable regional asset, used by Amtrak, commuter authorities, and freight railroads. Amtrak accounts for about 56 percent of the train-miles on the Corridor but operates less than 20 percent of the daily trains. The commuter authorities have access to the Northeast Corridor on an incremental cost basis. How much do you estimate the commuter authorities are underpaying for the use of the Corridor.

Answer. Under current statutory law and administrative decisions, most commuter authorities using Amtrak's Northeast Corridor properties are only required to pay the incremental costs attributable to their use. Commuter authorities are "underpaying" Amtrak for their use of the Northeast Corridor only in the sense that they would be required to pay more if Congress changed the law to require them to pay Amtrak on the basis of fully allocated costs (as freight railroads do for their use of the Northeast Corridor) or some other methodology that required higher levels of payments. During the last Amtrak reauthorization process in 1997, Amtrak supported proposed legislation that would have required commuter railroads using the Northeast Corridor to pay fully allocated costs; however, this legislation was re-

jected by the Railroads Subcommittee of the House Transportation and Infrastructure Committee.

Amtrak has not attempted to project the extent to which commuter railroads' payments would increase if they were required to pay fully allocated costs. Because of the magnitude of the costs involved, and the number of Northeast Corridor users among which specific cost components would have to be apportioned, making such a calculation for the entire Northeast Corridor would be a major undertaking. However, there is no question that, under a fully allocated costing methodology, commuter railroads operating over the Northeast Corridor would be required to pay significantly more for both capital and operating costs than they do today.

Question 10. If the commuter authorities paid their "fair share" on the Corridor, how much would Amtrak's capital needs be reduced in the five-year plan?

Answer. The extent to which Amtrak's capital needs would be reduced would depend upon how "fair share" was defined, and upon the willingness and financial ability of the commuter authorities to bear the increased capital (and operating) costs they would be required to pay if they wished to continue to operate over the Northeast Corridor.

Question 11. What steps, in your view, would need to be taken to manage the Corridor through an interstate compact?

Answer. The steps that would need to be taken to manage the Northeast Corridor through an interstate compact are difficult to predict in the absence of any specifics as to how that compact would be organized and operated. If the compact takes the form that is described, in very general terms, in the Administration's recent Congressional testimony, the issues that would have to be addressed would likely include the following:

A. Restrictions in Financing Agreements to Transfer of Northeast Corridor Assets and Rolling Stock

Almost all of Amtrak's rolling stock is subject to long-term tax leases, and many of Amtrak's principal Northeast Corridor assets, including the maintenance facilities and adjacent property for the high speed trainsets, are subject to either long-term tax leases or long-term bond financed leases. The specific structures of the financing vary, but there are certain common elements that would need to be addressed in the context of a transfer of Amtrak's assets to an interstate compact. For example:

1. Amtrak itself does not have title or legal ownership of many of these assets. As a result, Amtrak does not have the unilateral legal right to dispose of or transfer the asset to another entity.

2. Under most of its financing, Amtrak is subject contractually to one or more of the following covenants:

a. a prohibition against transferring the subject asset;

b. a prohibition against Amtrak's disposing of all or substantially all of its assets;

c. a requirement that Amtrak maintain its corporate existence.

If Amtrak breaches one of these covenants, such breach would result in an Event of Default, which could result in one or more of the following consequences: a foreclosure and taking of possession of the asset by the lienholder; an acceleration of all the remaining amounts of indebtedness incurred by the financing.

3. Numerous Amtrak financings contain cross-default provisions such that an Event of Default under one financing could trigger an Event of Default under other financings, with the attendant consequences of acceleration of indebtedness, foreclosure, and possession of the collateral.

In short, in order to effectuate a transfer of ownership and leasehold rights to the NEC facilities and equipment, it would be necessary:

- to negotiate with Amtrak's lenders/lessors to obtain their consent to the transfer, which could require payment of consideration including potential loss of bargained for tax benefits and/or a Federal guarantee of Amtrak's $3.9 billion indebtedness;
- to pay the full amount owed under any financing as to which consent could not be obtained; and

Finally, under certain of the leases, Amtrak has specific obligations, not transferable to other parties without the lessor's consent, to maintain the Northeast Corridor.

B. State-Owned Portions of Northeast Corridor

If the compact was to operate the entire Northeast Corridor, the state-owned portions of the Corridor in Massachusetts and Connecticut, which total over 100 miles, would have to be acquired from these states.

C. Valuation of Northeast Corridor Properties

If the formation of a compact results in a conveyance of the Northeast Corridor to DOT by Amtrak, the valuation of the corridor and its assets will have to be ascertained. There are likely to be disputes involving various stakeholders (*e.g.,* Amtrak's common stockholders) over the amount of the consideration to be paid by DOT and whether and to what extent they are entitled to share in that consideration.

D. Provisions of Other Agreements

In addition to the financing agreements referenced above, various other agreements to which Amtrak is a party contain restrictions on the transfer of contractual obligations or assets without the consent of the other party that would appear to be implicated by the creation of the compact.

E. State Laws and Constitutions

The statutes and/or constitutions of some of the affected states would, unless amended, likely preclude some states from taking certain of the actions that would likely be necessary to create and operate the compact.

F. Northeast Corridor Operations and Control

The joint control of the Northeast Corridor by the Federal Government, eight states, and the District of Columbia would obviously raise complex operational and control issues. These issues include:

- what "voting rights," or veto powers, each state would have;
- how the financial contributions of individual states would be determined;
- what would happen if the members of the compact were unable to agree upon the priority and scope of capital projects, operational and control issues, and each state's financial contribution;
- what would happen if some states chose not to participate in the compact, or failed to provide the full amount of the funding requested of them;
- whether the Corridor would continue to be maintained to the levels required for *Acela Express* operations at speeds of up to 150 mph, and who would bear the additional capital and operating costs required to maintain track to these levels (which are not required for commuter train operations); and
- what entity would have operating control over the Northeast Corridor, and responsibility for its safe operation.

G. Labor Agreements

The creation and operation of the compact would raise a number of significant labor issues, including:

- who would be the employer(s) of the employees performing work currently performed by Amtrak;
- whether existing labor agreements would transfer;
- whether the Railway Labor Act and the Federal Employers Liability Act would apply to all employees; and
- whether all employees would be covered by Railroad Retirement and Railroad Unemployment (and if not, how the resulting shortfalls in these funds would be addressed).

H. Environmental Consideration

One very important consideration would be determining responsibility for, and apportioning the cost of, the potentially significant environmental liabilities on the Northeast Corridor. In particular, because most of the Corridor has been electrified and operated with electric equipment since the 1930s, there is PCB contamination at a number of sites that predates Amtrak's acquisition of the Corridor in 1976, but for which Amtrak has borne many of the environmental cleanup costs to date because it is the current owner of the Corridor.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. TED STEVENS TO DAVID L. GUNN

Question 1. What, if any action has Amtrak taken to effect, or otherwise to address, the mandatory October 1, 2002 redemption of its common stock?

Answer. The National Railroad Passenger Corporation (Amtrak) has two classes of stock, preferred and common. Amtrak's preferred stock is completely owned by the United States Government through the U.S. Department of Transportation. Under the Rail Passenger Service Act (49 U.S.C. 24304), Amtrak was required to issue to the Secretary of Transportation preferred stock equal to the par value of all Federal operating payments and most Federal capital payments received subsequent to October 1, 1981, as well as capital and certain operating payment received prior to that date. On September 30, 2001 and 2002, 109,396,994 shares of preferred stock were authorized for issue at the par value of $100—all of which were issued and are outstanding. All of the issued and outstanding preferred stock are held by the Secretary of Transportation for the benefit of the Federal Government.

The Amtrak Reform and Accountability Act of 1997 resulted in significant modifications to Amtrak's capital structure. Prior to the Act, dividends were to be fixed at a rate of not less than six percent per year and were cumulative; no dividends, however, were ever declared. The 1997 Act abolished the voting rights and liquidation preference of the preferred stockholder. The 1997 Act established that no additional preferred stock is to be issued by Amtrak in exchange for Federal grants. According to an independent audit, at the time of enactment of the 1997 Act, the minimum undeclared cumulative preferred dividend in arrears for all series issued and currently outstanding was $5.8 billion.

The company also authorized to issue 10,000,000 shares of common stock at a par value of $10. Of the 10,000,000 authorized, 9,385,694 were issued and are outstanding. The common stockholders, four predecessor railroads to Amtrak, have voting rights for amendments to Amtrak's articles of incorporation proposed by the Board of Directors. The 1997 Act also required Amtrak to redeem, by the end of Fiscal Year 2002, at fair market value, the shares of common stock outstanding.

Amtrak has held meetings with the owners of the common stock to discuss the redemption of their shares, but there has been no resolution of this matter between Amtrak and owners of the common stock. It is Amtrak's position, based on the current debt load and annual losses of the company, that the common stock has little or no value. Nevertheless, in an effort to comply with the 1997 Act, Amtrak has made an offer to redeem the stock at a cash price of $0.03 per share. In a letter dated November 2, 2000, counsel for the four common stockholders rejected Amtrak's offer as inadequate. Amtrak has no legal authority to compel the stockholders to redeem their shares.

In my testimony, I indicated that when I arrived at Amtrak on May 15 of last year, the corporation was in serious trouble. Amtrak faced insolvency. Sometime in July 2002, we would have missed our payroll. The physical plant had been allowed to deteriorate. Heavy maintenance of cars and infrastructure had ceased several years ago—over 100 cars were wrecked or damaged and out of service. Fiscal controls were inadequate. We were unable to close our books for FY01 until September of the following year. There was no regular reporting of financial results. The organization was poorly defined and did not lend itself to effective decision-making. Amtrak's management was top heavy—84 people had "vice president" on their title. The budget process was ineffective, and there was no control over staffing. Our credibility as an organization was in tatters.

My immediate goal in June and July 2002 was to secure funding to allow us to survive into FY03. However, at the same time, we had to lay a prefoundation for the future. I set a goal to have in place by October 1 a functional railroad organization, a zero-based budgeting process, and public reporting of financial and physical results. We also began focusing on controlling expenses. We were successful—we secured a loan from DOT and a supplemental appropriation from Congress that allowed us to make it through the end of the year and avert a transportation crisis. We entered FY03 with an appropriation from Congress which was essentially zero based and which focused available resources on beginning the rebuilding process, as well as controlling expenses.

While we would be willing to continue to discuss this matter with the owners of the common stock and discuss the redemption of the shares, Amtrak believes this issue can only be resolved in the context of reauthorization legislation because, as noted above, Amtrak does not have the legal authority to condemn the common stock in question or otherwise compel redemption. I must be candid and inform you that my immediate attention is focused on stabilizing the railroad to ensure the safety of our workers and our passengers. Once the railroad is stable—and its condi-

tion and operational reliability is restored—I can turn that same attention to the resolution of this matter.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO DAVID L. GUNN

Question 1. In your testimony you stated that Amtrak train employees earn only about 90 percent income of their freight railroad counterparts. You also stated that you believed that management changes could result in Amtrak employees performing their duties more productively. What management changes could be made to enable Amtrak employees to function in a more productive and efficient manner?

Answer. I have already instituted changes within Amtrak to enable greater efficiency and productivity amongst our employees. In June of 2002, one month after I became Amtrak's President and CEO, I announced a re-organization and streamlining of the company through the elimination of the business units, centralization of Amtrak's overall business functions, elimination of nearly 300 positions, and reduced the number of vice presidents by two-thirds. This took effect in November of 2002 to coincide with the beginning of the fiscal year. I have since also instituted monthly budgets based upon monthly staffing plans as well as new organization charts for the company. These tools will better enable me to control our number of positions and monitor our workforce budget. Finally, I have put in place a management leave tracking system that will reduce employee absenteeism. Improving the efficiency and productivity of this railroad is of paramount importance to me and I will continue to search for ways to better serve these goals.

In addition, we have worked hard to organize our back shops to perform real production work. At Beech Grove, we have organized the workforce into larger gangs to give us more flexibility to shift workers to projects reducing slack time and will have tried to enhance our progressive maintenance program by changing out components prior to lifecycle expirations. This should help us to begin to get ahead of enroute failure and bring more reliability to the fleet. With regard to infrastructure, we have, for instance, put the Track Laying Machine back in service and have replaced over 26 miles of wood ties with concrete, undercut, resurface, and where necessary replace worn rail with new. As of today, this is a much more efficient use of manpower than doing small projects here and there. Rebuilding the railroad in this manner also builds employee morale.

Question 2. Amtrak must provide employee benefits to employees who suffer a loss of income due to the discontinuance of train service. You stated that this benefit is part of bargaining agreements made with Amtrak employees. Can this aspect of the bargaining agreements be changed?

Answer. Congress directed Amtrak in its last reauthorization (1997) to negotiate substitute conditions for C2 labor protection under the terms of the Railway Labor Act. Following this requirement, Amtrak began negotiations with rail labor with the terms for the new labor protection ultimately decided through binding arbitration. Therefore Amtrak cannot change these bargaining agreements. Congress could directly address the C2 labor protection issue in Amtrak's reauthorization by legislating over the collective bargaining agreements and mandate specific labor protection thresholds.

Question 2a. What effect would there be on Amtrak employee morale and productivity if this benefit were eliminated from collective bargaining agreements?

Answer. Amtrak cannot speculate on employee morale and/or productivity as it pertains to the potential elimination of C2 labor protection.

Question 3. Your 5-year strategic plan addresses current infrastructural needs. What do you foresee as Amtrak's 10- and 15-year strategic goals?

Answer. Amtrak is currently focused on two strategic goals: returning plant and equipment to a state of good repair, and improving financial and operational performance. Under Amtrak's five-year plan, the majority of Amtrak-owned assets will be in a good state of repair by FY08; remaining projects will be completed in the subsequent five-year period. There will always be the need for capital investment. While the plan does not call for any new initiatives or service unless funded, any future passenger rail development or restructuring will require that the existing railroad is stabilized as called for in Amtrak's plan. There is obviously a great demand and need for improved and expanded intercity rail passenger service in the United States. The extent to which that need is met, and the role that Amtrak will play, will depend upon the decisions made by policymakers over the next few years.

Question 4. We are watching very closely the transition at the MBTA where a private enterprise will replace Amtrak as the operator of Boston commuter trains. I

understand that Amtrak did not bid on the MBTA contract, even though Amtrak has contracted with the MBTA for several years. How much did MBTA pay you?

Answer. The MBTA paid Amtrak $177 million for the final year of commuter rail service.

Question 4a. How much will they be paying the new entity?

Answer. According to newspaper reports, the new company will be paid $1.07 billion over a five-year period or annualized $214 million per year over five years.

Question 4b. When does your contract expire?

Answer. June 30, 2003.

Question 4c. What is the new company's financial position?

Answer. Amtrak does not have any knowledge of the new company's financial position.

Question 4d. Is the new company considered a rail carrier for purposes of RRTA?

Answer. According to newspaper reports, the new company is considered a rail carrier for purposes of RRTA.

Question 4e. Why didn't Amtrak bid?

Answer. Amtrak found many of the terms of the Request for Proposals issued by the MBTA unacceptable from a business and risk perspective. For example, the Request for Proposals required the operator of the service to fully indemnify the MBTA against all injury claims, environmental risk and to operate the service on a fixed price basis for a lengthy period (at least five years) with little provision for cost adjustments even if there were major increases in insurance, utility, or other costs. For those reasons, we chose not to bid.

Question 5. One of the witnesses at the hearing testified that Herzog withdrew its bid to operate the Missouri Mules after Amtrak lowered its subsidy requirement to operate the trains from $8.9 million to $6.4 million. The implication seemed to be that Amtrak engages in tactics that create an unfair bidding atmosphere, thus preventing any competitors from winning contracts away from Amtrak. Why did Amtrak lower its subsidy requirement for the Missouri Mules? Do you believe it would be an appropriate business practice to reduce the price Amtrak charges to operate a train just to avoid a bidding war with a private competitor?

Answer. The allegation that Amtrak lowered its price to the State of Missouri for operating passenger rail service between St. Louis and Kansas City when Amtrak became aware that the State planned to bid out the service is not correct.

At Missouri's request, Amtrak provided the state in November of 2002 with a preliminary cost estimate of $6.8 million to $8.9 million for operating the "Mules" service in FY 2004, depending upon the level of services Missouri selected, with the caveat that the actual cost would be based upon Amtrak's uniform Route Contribution Analysis (RCA) costing methodology, which was then under development. The reduced Amtrak cost estimate to which the question refers was formally communicated to Missouri on December 20, 2002, when Amtrak sent letters to all states that fund state supported services advising them of the payments from states that would be required under RCA. Because RCA eliminated inequities in the payments made by the various states, some states' projected payments decreased while others' increased. All of this information, costing breakdowns and methodology, was made public.

Herzog Transit Services did not announce its interest in operating the Missouri service until January of 2003, and Missouri did not issue its RFP until March of 2003. The reduction in Amtrak's projected charges to Missouri was communicated to the state before these events occurred. This reduction in cost resulted from the application of the new, uniform, RCA costing methodology for all state-supported trains, and had nothing to do with the Missouri's subsequent decision to bid out its service. See letter attached to the back of these responses from Amtrak President and CEO, David Gunn, to Representative Graves (R–MO) for further details.

Question 6. Because Amtrak is a public entity, its finances and contracts are available for public consumption. Is there public availability of the same information of private entities who are bidding against Amtrak for a contract to operate a train?

Answer. In many situations in which Amtrak is competing for a contract, much more Amtrak financial and business information is publicly available than is available for other bidders which gives our competitors certain advantages.

Question 6a. Do you believe Amtrak is competing on a level playing field when bidding against other bidders on contracts to operate trains?

Answer. As stated above, the public availability of information about Amtrak is advantageous to other companies that are competing against Amtrak for contracts to operate rail services. In addition, some companies that bid against Amtrak are not considered a "railroad" for purposes of the Railroad Retirement Tax Act and the

Railroad Unemployment Tax Act, and therefore pay significantly lower payroll taxes. Amtrak has an advantage where existing equipment is available. Also, Amtrak has a legislative advantage regarding access to freight carriers.

Question 7. Many proponents for privatization of Amtrak argue that private companies can operate the railroad more efficiently and for lower costs than Amtrak. Do you believe a private entity can make a profit at operating Amtrak without the benefit of significant government subsidies?

Answer. No, that is a myth. The private sector cannot operate intercity passenger rail service without significant government subsidies. Rail passenger service has not been profitable since the end of World War II. Amtrak was formed because the private railroads were losing too much money providing intercity passenger rail service. As information, no national passenger rail system in the world is profitable.

Question 8. In your testimony, you cautioned Congress against viewing reform of Amtrak as a "silver bullet" that will quickly fix Amtrak. You seem to be saying that massive reform is not needed; only tighter management of finances and critical improvements to plant and equipment. Of the many reform proposals you have heard in the past year, are there any that you believe could have some merit for the future success of Amtrak?

Answer. Any successful reform proposal will have to include a significant source of capital funding to enable the railroad's infrastructure and fleet to be returned to a state of good repair and make funds available to States for corridor development. S. 1900 does provide such funding. Absent such an infusion of capital, Amtrak, or anyone trying to operate rail passenger services, will continue to live hand to mouth, if at all.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO HON. DAVID D. KING

Question 1. The Administration has proposed that states should contribute a greater share to the support of intercity rail, as much as 50 percent. Other modes of transportation, such as highway and aviation, typically are based upon only a 20 percent state match of Federally appropriated funds. Do you think that a 50/50 match scheme for passenger rail, in contrast to the 80/20 plans used for highway and aviation funding, is a fair way to provide proper support for intercity passenger rail?

Answer. An investment of Federal resources in improved intercity passenger rail can be used to leverage significant state and private resources in a program of infrastructure improvements that can improve both intercity passenger and freight services. By authorizing funding at less than an 80 percent Federal share, the current Federal transportation program provides a disincentive for states to invest in rail since states can receive more Federal funds for state dollars by matching highway, aviation or transit program funds.

The States for Passenger Rail Coalition (SPRC) supports a national interconnected intercity passenger rail network. However, states should not, nor are they in a position to, fund long-distance service. This is a Federal responsibility. States are willing to invest in a system of improvements to support existing and new passenger rail corridor services that benefit their state, and to partner with adjoining states in developing projects that serve their mutual interests. While projects of regional and multi-state interest are possible, these projects will require Federal assistance.

Improvements to the management and operation of our system of long-distance trains are crucial, but it should be acknowledged that the national network of intercity passenger rail services serves as an important link between corridors, offers critical access in some areas, and is the base upon which "new corridor service" will be developed.

Question 1a. Do you believe it is feasible for States to provide this type of funding with their current state of financial deficits?

Answer. In June 2002, Secretary Mineta requested that the National Governors Association (NGA) consider and advise him on the Administration's principles for investment in intercity passenger rail. One of the principles requested that States begin directly funding the national system operating through their state. The NGA adopted policy statement EDC–16 at their February 2003 Annual meeting. The policy states, in part, " . . . States have partnered with Amtrak for the operation, development, and financial support of existing corridor services. The states have a stake in the successful restructuring of Amtrak and need to be closely involved in these discussions. States should not be forced to bear the historically Federal re-

sponsibility for continuing intercity passenger rail service should Amtrak be unable to continue as an operating entity . . . .”

Question 2. On the Piedmont line, the passenger train that operates daily between Charlotte and Raleigh, the State of North Carolina owns the equipment. What was the initial investment made by North Carolina to purchase this equipment?

Answer. North Carolina’s passenger equipment pool was created for an investment of $7.5 million. This figure includes an approximate cost to rehabilitate and place it into service of $750,000 to $1 million per car. Our initial locomotive power was developed in the same manner, which we supplemented through investment in new locomotives at a cost of $4.6 million in 1998. In addition to the trainsets themselves, North Carolina has made significant investments in the mechanical facilities to support their daily operation, as well as investments in acquiring the railroad and in building or rehabilitating all active passenger stations.

A spreadsheet detailing investments by States in intercity passenger rail service is attached.

Question 2a. What would it cost to lease the same equipment?

Answer. Generally an equipment lease seeks to recover 10–12 percent of the cost of assets that have a useful life of 15 years.

Passenger equipment is not available in the marketplace. In fact, the lack of equipment is a major problem for any entity seeking to develop or operate service. The States for Passenger Rail Coalition has provided testimony recommending that a national pool of passenger rail equipment be established. This equipment pool would be a cooperative venture involving states, or interstate compacts and authorities, and the Federal Government, and it offers opportunity for both the financial markets and for equipment manufacturers. Without such an approach, it is unlikely that a single state will be able to make much progress in the area of acquiring new rolling stock.

Question 3. The Administration proposal calls for states to form compacts for the support and operation of intercity passenger rail between those states. North Carolina now enjoys passenger rail service that connects to much of the deep South and all of the states on the Eastern Seaboard. What success do you believe North Carolina would have in forging a compact with neighboring states for the continuation of passenger rail?

Answer. The Amtrak Reform Act of 1997 provides authority for States to form interstate high-speed rail compacts. Legislation (Railroad Infrastructure Development and Expansion Act for the 21st Century, RIDE–21) introduced in this session of the Congress acknowledges the role the compacts may play in implementing improved intercity passenger rail services. Many states are critically examining alternative forms of governance that could be a means of implementing new services.

No states are considering the formation of compacts to continue the existing national intercity passenger rail network. Should the Congress not fund the national network of intercity passenger rail services, we believe the National Rail Passenger Corporation would be forced to cease operations.

States are working cooperatively in a number of regions around the county to plan and develop improved intercity passenger rail service. These initiatives are characterized by market driven city pairs with strong economic linkages. Many of the long distance trains connect regional corridors although the network of long-distance trains does not serve all states equally well.

The Midwest Regional Rail Initiative (MWRRI) is an example of states working together to develop a comprehensive plan for integrated, interstate passenger rail service in 100 to 400 mile corridors. The MWRRI plan does not envision the states having any role in supporting long distance trains. Even focusing on short to medium distance corridors, the MWRRI states have not reached a consensus on either an institutional approach or cost allocation formula for the implementation of the plan at this time.

The MWRRI proposes that the service be provided through a contract with a provider, presumed at this time to be Amtrak. There has not been a decision as to how the states will share capital or operating costs and/or revenues of the proposed service. The MWRRI planning experience suggests that cost allocation among states is both a complex technical and political issue that will be difficult to resolve without Federal involvement. However, there are several institutional alternatives being considered for the future implementation of the plan. These alternatives range from creation of an interstate compact as authorized in the Amtrak Reform and Accountability Act, to each state contracting for its individual service. The number of different railroads over which the proposed service will operate complicates the decision-making process. These same issues have been identified in the Ohio and Lake

Erie Regional Rail—Cleveland Hub Study—a multi-state study just to the east of the MWRRI

The number and diversity of states involved in most long distance corridors makes interstate agreements for these services highly unlikely. For example, the Empire Builder Service from Chicago to Seattle crosses seven states over multiple railroads. It is hard to envision cost sharing arrangements that would be acceptable to states as diverse as Illinois, North Dakota and Washington State.

While North Carolina does "enjoy" service as a component of the national system, this service is not designed to serve North Carolinians; rather it is designed for the New York to Florida and Louisiana markets. States should not be expected to fund services they do not plan, into which they do not have management input and that are not optimized for their citizens.

In addition, there are a number of states that have constitutional or statutory provisions that negatively impact their ability to subsidize intercity rail passenger service.

Question 3a. What would North Carolina's options be if other states in the South or on the Eastern Seaboard are not able to forge a working compact, thus disrupting North Carolina's rail connections to more distant destinations?

Answer. Cease interstate service, and likely cease intrastate services also. About 50 percent of all intercity rail passengers in North Carolina use the national system for interstate travel. Of the single interstate train the state sponsors, approximately 60 percent use the service for interstate purposes.

The cobbling together of the Atlantic Coast states to recreate Amtrak's NY to FL services would quickly break down over cost distribution and service issues. In addition, intrastate services would be in jeopardy. Over half of the trip which originate in North Carolina using one of our state-supported trains have a destination in another state.

Direct State Investments in Improved Intercity Passenger Rail, 1996–2002

[Actual expenditures of State money, as estimated and reported by the states. Excludes matching funds from Amtrak, the Federal Government, and freight railroads]

	State expenditure, (millions of dollars)
California	$871.6
Washington State	87.6
Oregon	3.1
Illinois	153.7
Michigan	52.0
New York State	111.6
North Carolina	118.9
Virginia	80.1
Totals	$1,478.6

Based on these numbers, it is fair to report the states' cash expenditure over the past five years at approximately "1.5 billion." (Updated March 6, 2003.)

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO JOHN H. WINNER

Question 1. Having listened to the testimony of Deputy Secretary Jackson, how would you characterize the Administration's plan in terms of the categories of contracting, franchising, and privatization you discuss in your written statement?

Answer. Deputy Secretary Jackson described reforms that, if implemented, would, over time, eliminate Amtrak's monopoly in intercity rail passenger services. These reforms would allow all forms of private sector participation described in my testimony to be applied to intercity passenger services.

As I understand Mr. Jackson's testimony, over a six-year reform period, a part of Amtrak would be restructured into a train operating company. As an operator, Amtrak would obtain contracts for the operation of intercity trains from States and Regional Rail Operating Companies. At some point, these contracts would be opened to competitive bidding, introducing the competition for contracts discussed in my testimony.

The Deputy Secretary did not describe the Administration's vision of the future intercity passenger train environment in detail. From the description offered, however, some trains could be franchised. It is my expectation that some named long-

distance trains (*e.g.,* the Coast Starlight) and high-speed rail services could be franchised. Franchising is typically associated with better marketing and customer service because train services are more closely matched to market demands since the franchise operator assumes some revenue risk. If the franchise agreements are long enough, such agreements could be used to introduce improved, upgraded, or even new rolling stock.

Once Amtrak gains experience as a train operating company, it could be privatized to compete with other train operating companies for intercity, suburban, and metro operating contracts and franchise opportunities. To me, it would be illogical to maintain a majority government owned enterprise in a competitive marketplace.

Question 1a. Do you think the Administration has thought through all of the critical issues for instituting reform?

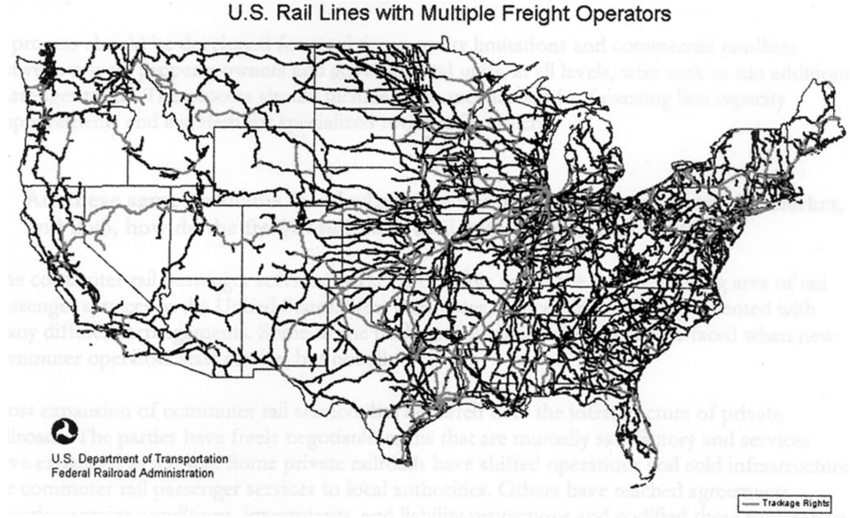
Answer. Reform of intercity rail passenger services in the United States will be a complex undertaking. Developing a system that encourages local and state participation in train services, breaking the current Amtrak monopoly, dividing Amtrak into different companies, introducing competition and private participation, and dealing with the problems that might arise with increased private participation, all in a politically charged environment, will be very difficult.

It is unlikely that anyone could foresee all the problems that may arise. But that should not be an excuse for delay. Perfect solutions that please everyone do not exist but, the framework described by Deputy Secretary Jackson is a reasonable place to start. Adjustments should be made over time, as the process unfolds.

Question 2. In your testimony, you discuss some of the challenges to be faced in transitioning to a new model for passenger rail service. One area in particular that you highlight is the problems that will be faced by infrastructure owners in dealing with multiple operators on their rail lines. While the prospects of problems are real, in your opinion are they insurmountable?

Answer. No, the problems associated with multiple operators on rail lines are well known to the rail industry. There are many privately-owned rail lines with multiple operators. The map below shows, in red, U.S. rail lines with multiple freight operators as recorded by the Federal Railway Administration in 2002. The red lines represent about 20 percent of the rail network in the United States. On some red lines there are actually several operators—more than two, sometimes as many as four or more. Clearly, having multiple rail operators on a rail line is not unusual. Private railroads have been negotiating access rights to track for a long time.

U.S. Rail Lines with Multiple Freight Operators



However, high-speed, high-priority passenger trains consume a lot of rail line capacity and many lines are near capacity. As new passenger trains are introduced, given a higher priority, or their speed increased above that of other trains on the line, some investment in line capacity is likely to be required. Investments and schedules should be the subjects of negotiations with infrastructure owners.

Question 2a. What steps could be taken by Congress in restructuring passenger rail service in the United States to minimize the disruption to other rail operations?

Answer. Several steps will minimize disruption in other rail operations:

- Reform of Amtrak may cause some labor strife. Labor actions should not be allowed to affect private rail services.
- A mechanism should be developed to indemnify infrastructure owners from excess liability claims related to passenger train operations on their lines.
- Train operating companies should have reasonable access to insurance.
- The effect of reforms on railway retirement contributions should be clearly understood. It may be necessary to create some method to compensate the fund for changes in Amtrak employment or contributions so that private railroads are not adversely affected.

Inspector General Ken Mead discussed how some of these problems might be mitigated. For example a direct payment to the Railroad Retirement Board would cover excess payments burdens of private railroads. Deputy Secretary Jackson also discussed a Federal/State grant approach to funding infrastructure improvements, similar to the way in which highway and transit systems are funded. This might be an effective way to handle capacity investments necessary for increased or enhanced passenger services.

A process should be developed for resolving capacity limitations and commercial conflicts between private property owners and governmental units, at all levels, who seek to run additional passenger trains. The process should include some mechanism for financing line capacity improvements and a system for specialized review of conflicts.

Question 3. Are these same problems faced when new commuter operators enter the market, and if so, how do the freight railroads deal with them in that context?

Answer. The commuter rail passenger services market is dynamic and is the fastest growing area of rail passenger services in the United States. New commuter services are being implemented with many different arrangements. Some of the problems discussed above must be faced when new commuter operators start service, but not all.

Most expansion of commuter rail services has occurred over the infrastructure of private railroads. The parties have freely negotiated terms that are mutually satisfactory and services have expanded as a result. Some private railroads have shifted operations and sold infrastructure for commuter rail passenger services to local authorities. Others have reached agreements covering service conditions, investments, and liability protections and codified these agreements into commercial contracts.

On the other hand, in a commuter operation, the scope of problems is limited to a region or a relatively short stretch of line. Railway retirement is not usually an issue; the use of an operator, other than the infrastructure owner or Amtrak, is often not considered; and the role of operator is often not subject to bid. Clarification of the role of Amtrak, ownership of Amtrak's right-of-access, and insurance and liability issues would ease the formation of new commuter and intercity routes funded by local authorities and other government bodies seeking to expand rail passenger services.

Question 4. What do you believe are the next steps to take regarding Amtrak's future and that of intercity passenger rail in the United States?

Answer. The first step should be to get started with legislation that will irreversibly eliminate Amtrak's monopoly on intercity rail services and restructure Amtrak. Amtrak should become a train operating company and ownership of Amtrak's assets (stations, rolling stock, and track) transferred to a body that will manage access to them. This should start quickly. The legislation must recognize the rights of Amtrak's minority shareholders.

Amtrak's board could take some of these steps today. It should create an accounting structure and system that clearly identifies operating costs by train service and separates the cost of infrastructure maintenance and renewals on the northeast corridor. It should also form an infrastructure subsidiary to manage ownership of the northeast corridor property.

Question 5. How long do you expect restructuring to take?

Answer. The restructuring process is likely to take 6 to 10 years. Congress should not wait for the perfect plan because during the restructuring process, economic life will continue to evolve and conditions will change. It is likely that any legislation will be modified as the process proceeds; that is the typical experience in the restructuring of complex public entities. The evolution of intercity passenger services

in the United States will be stunted and distorted until Amtrak no longer has a monopoly on them.

Question 6. Can you describe how restructuring has been implemented in other countries?

Answer. Books have been written about railway restructuring in other companies; I have spent the last 25 years helping other countries restructure their rail industries. So it is difficult to describe briefly how passenger rail restructuring has been implemented in other countries. Two things that I have learned is that monopoly rail systems distort transport markets and that government-owned railway enterprises are enormously difficult to change. Governments all over the world have already, are now, or are planning to restructure their state-owned rail systems. Each country has taken a unique approach, tailored to its own particular circumstances. Some examples:

Europe

Countries of the European Union are in the throes of reform now and have been since the mid 1990s. The EU has taken a deliberate approach and agreements have been difficult to achieve between countries with private railroads *(e.g.,* Switzerland) and those with a tradition of strong state support for state-owned railroads *(e.g.,* France and Germany). The EU has required at least accounting separation of rail operations from infrastructure as a means to improve transparency. Most national railways are being restructured along lines of business—infrastructure, intercity passenger, local passenger, and freight. Once-large engineering and maintenance departments are being separated and many engineering services are now contracted in. Operation of local and regional passenger trains is increasingly contracted or franchised to private operators. Rail freight transport is on the cusp of very significant restructuring as new EU competition laws require access to state-owned infrastructure for any EU-approved rail service provider.

In most of Europe, freight and passenger services lose significant amounts of money. Each EU country is using a different approach to restructuring, but the effect of all approaches is to increase competition and break up integrated state rail enterprises. For example, in France, the government moved rail infrastructure, and almost all debt (some $26 billion) from the French national railway (SNCF) to the newly formed French Railways Infrastructure Authority (RFF) in 1997. Between 1997 and December 2001, debt had climbed to nearly $40 billion and some resolution was needed. The French government formed the High Council on Railway Public Service (CSSPF) to control the development and evolution of the rail sector and provide recommendations for resolution. In January 2002, the government transferred responsibility for planning and financing local passenger transport to regional authorities. EU competition policy requires that contracts for local service must be competitively bid. Railway labor unions have objected to the split of SNCF operations and infrastructure and caused significant unrest. Outsourcing of local services is set to increase, and freight services will be subject to competition from other rail operators. Conventional intercity passenger ridership and rail freight traffic have dropped significantly in response to increased unreliability. SNCF and RFF are both under significant financial pressure. But, the ultimate fate of restructuring in France has yet to be decided.

The German National Railway, the DB, was established as a private-sector company in 1994. In the process, it separated infrastructure from transport organizations (with DB AG as a holding company), opened the rail network to third parties with payment of trackage charges, made the Federal Government responsible for rail infrastructure investment, and transferred the responsibility for suburban passenger transport to the states. These reforms have had some salutary effects on costs: DB employment declined by 30 percent and many light density lines were dosed. Suburban and commuter service patronage have increased 33 percent. But despite a full-cost road pricing scheme for German motorways and higher fuel prices, financial performance of the holding company has deteriorated and further reform will be necessary.

The restructuring process in Europe has been underway for many years and it is likely to take many more years. As European rail systems become more market oriented, restructuring is likely to continue in a long process of creative destruction characteristic of market economies.

The U.K.

Much has been discussed about the complex railroad restructuring process that has taken place in the United Kingdom. The British Government ended a moribund vertically-integrated state monopoly rail system by privatizing the entire system. The process was complex and fraught with difficulty; some of the problems have

been well reported. However, good aspects of the restructuring process are often overlooked in critical reviews of the U.K. privatization process. These include stimulation of rail services—passenger ridership is up more than 36 percent over the reform period; a doubling of the number and kinds of passenger services offered; freight traffic is up more than 42 percent; and private investment in rolling stock has increased significantly. A little noted feature of the reform of British Rail is that rail passenger safety has improved by more than a factor of three.

While the U.K. reforms were criticized as being overly complex, they were bold and have been successful in many ways. While the government is taking new steps to adapt regulations and reforms to changing conditions and to weaknesses in the original restructuring process, it is not re-nationalizing rail services. One of the characteristics of rail reform in most countries is that restructuring processes must be adjusted over time to take into account new issues that arise in a now dynamic rail industry. Dynamic change was not characteristic of the pre-reform industry.

Latin America

Rail restructuring has also been proceeding for many years in Latin America. While most Latin American railroads were built by private enterprises, during the 1960s virtually all were nationalized. By the beginning of the 1990s, nearly all state-owned Latin American railroads had fallen on hard times, with track in bad condition, rolling stock out of service and poorly maintained, and rail freight and passenger services spiraling downward. At the same time, government subsidy requirements were spiraling ever upward.

With high deficits, growing demand for public monies, and limited availability of funds, restructuring was the only mechanism remaining to sort out railway problems. Again, restructuring has been different in each country but most Latin American countries have used contracting, franchising, and privatization as restructuring mechanisms. By the beginning of the new millennium, there were *no* significant publicly-operated freight railroads remaining in Latin America and many suburban passenger railways and metros had also been transferred to private operation.[1]

Japan

The largest restructuring occurred in Japan with the breakup and partial privatization of the old Japanese National Railways (JNR). The deterioration of JNR did not occur suddenly and there were at least six attempts to reform JNR since 1964. It is difficult to summarize the complex transitions that took place, but some $200 billion in debt was transferred to a government Settlements Corporation, along with excess staff. Three major rail passenger corporations, JR East, JR Central, and JR West, were established and privatized.

Since privatization, the three companies have been generally profitable. Labor productivity has trebled (and is now about five times the comparable labor output of EU railways), fares have been stable, and government subsidies have been transformed from payments of about $5 billion annually to positive income of some $3 billion a year in tax payments from the private companies. Investment in infrastructure and rolling stock has continued to grow while service quality and reliability has improved significantly.

There are several lessons to be learned from the reform experience of other countries. First, restructuring is a complex, multi-year process. Second, restructuring works best when it is based on planning by impartial, expert groups insulated from political pressures. Third, resolution of labor issues is a critical component of restructuring processes.

World experience shows that many different restructuring methods can work and that all forms of contracting, concessions, and privatization are useful means to accomplish restructuring. World experience also shows that publicly-owned monolithic and monopoly railways operating behind government-constructed barriers to competition are a recipe for the demise of rail services.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO JOHN H. WINNER

Question 1. In your testimony, you propose that certain sectors of the passenger rail industry could be franchised as a form of privatization. Franchises could run the gamut, from franchises to market passenger rail to larger franchises to rehabilitate stations or modernize rolling stock. Franchises call for higher start-up costs and

[1] *"Changing Railway Structure and Ownership: Is Anything Working,"* Louis S. Thompson, Railways Adviser, The World Bank. 2002.

greater risks, but the franchisee stands to make more money if it is successful. You note that the U.K. franchised train services. When the U.K. tried to wean its rail franchisees from huge government subsidies, the franchisees were forced to make operating cuts that led to customer dissatisfaction. Several franchisees went bankrupt. The franchises were transferred to other companies, but with a substantial increase in subsidy level. Today, the number of franchisees has been cut by half, and passenger rail service in the U.K. requires a higher level of government support after privatization than before. In the state of Victoria, Australia, three of five passenger rail franchisees have been abandoned because of financial losses. In Argentina, when the national government withdrew all subsidies, no private company stepped in to provide passenger rail service because it could not be profitable without subsidies. Passenger rail service disappeared in Argentina.

With the background knowledge of so many franchise failures in other countries, one has to question the motivation of a private entity seeking to enter the rail passenger business as a franchisee. Is it because it genuinely expects to earn a profit due to its stellar management and efficiency, or because it expects to benefit from a significant government subsidy that will roll in year after year regardless of the entity's management abilities?

Answer. Franchising is one of several methods that may be used to involve the private sector in providing intercity rail passenger services. Private companies will participate if they have an opportunity to earn a return on their investment of capital and labor; returns expected would be related to the level of risk. Since intercity rail passenger services can rarely be operated profitably (including investments for rolling stock and infrastructure), it is unlikely that any intercity rail passenger services would be offered in the United States if there were no payments from government entities or agencies.

The U.K. railway restructuring process was very complex and will be debated for a long time. Franchising involves risks and some U.K. franchises failed. Even so, many of the outcomes of that restructuring have been very good. Intercity rail passenger travel grew about 36 percent, freight services grew 50 percent, the number of daily trains nearly doubled, stations were improved, subsidies declined by £200–300 million a year for over four years, there was a surge of new *private* investment in rail passenger rolling stock, and rail safety improved considerably. On the other hand, the increase in daily train services resulted in a shortage of qualified staff and congestion on the rail network, and increased congestion caused deterioration of on-time performance. Today's higher government payments for rail services in the U.K. are primarily for infrastructure investments necessitated by underinvestment in the past, the need for new capacity, and promised line upgrades.

Franchising in Argentina was successful in helping to restructure a rail system consistently costing the government more than $1 billion a year while producing little transport output for the economy. That loss was replaced by income from freight concessions and taxes paid by franchise operators, and a limited and defined subsidy payment for passenger services. As a result of restructuring, commuter ridership soared, freight transport increased for the first time in decades, and private investment poured into rail rolling stock and infrastructure. Intercity rail passenger services were not contracted, franchised, or otherwise subsidized by the national government; states elected not to subsidize them either. Therefore, intercity passenger services ceased. When the economy of Argentina collapsed recently, all companies were adversely affected, many closed—some rail franchises were among them. When a franchise fails, the franchised assets return to the government.

Question 1a. A bidding process for franchises would likely foster competition between private companies to win the bid. However, what about the franchise system would generate competition once the contracts are all awarded?

Answer. In most places franchises are awarded in a competitive bidding process and competition arises during the bidding process. If there is only one franchise, once the franchise is awarded, there is no further competition between franchise operators until the end of the franchise. If there are multiple franchises, there is usually a great deal of competition between operators to improve performance of their underlying franchise. Most franchise contracts are written with performance targets and bonuses for improved schedule performance, reduced customer complaints, increased ridership, and other measures. Most rail passenger services also have a great deal of competition from other modes—automobile, air, and bus. In fact, it was the rise of inexpensive and convenient highway and air travel that ultimately made intercity rail services unprofitable.

Question 1b. Wouldn't franchising a certain segment of the rail passenger industry to a private entity just be, in effect, exchanging one monopoly (Amtrak) for another?

Answer. A franchise is not likely to become a monopoly for several reasons. First, the term of a franchise is limited and there is competition for the franchise each time the term is up. Second, performance criteria are usually written into a franchise agreement. An operator who does not meet those criteria loses the franchise. If a franchise operator does a poor job, or goes out of business, the assets revert to the government and the franchise can be awarded again.

Contrast this with the present situation. Under existing law, Amtrak's franchise is never up—it is a monopoly. If Amtrak does a poor job, there is not much that the government can do about it.

Contracting and franchising are more flexible than government ownership. The process is usually not politicized and operator changes occur as a part of a natural process. Franchise periods vary, depending upon the investment required (investments may be for equipment, station improvements, or for branding and advertising). Some are two to three years; others, which have larger investment requirements, are for longer periods—say, seven to ten years.

Finally, there is usually a lot of competition for rail passenger transportation services; automobiles, buses, airlines, carpools, and even taxis compete with rail transportation. Most franchise agreements give the operator an incentive to increase ridership, usually by improving customer service. So, even if a single franchisor has a de-facto rail monopoly for some period of time, it must still create a loyal customer base and compete with other transport modes. Amtrak has done this in some places, particularly the northeast corridor. Yet, even here, where Amtrak has its greatest market power, it commands only about 35 percent of the market between Washington and New York, hardly a monopoly.

Question 2. You say that in North America, all of the major freight railroads are qualified to be private-sector operators. I cannot argue with that statement; but it is also a fact that Amtrak, a government-operated national passenger rail system, was created 30 years ago precisely because these freight railroads did not want to engage in the passenger rail business.

Answer. When Amtrak was created, the nation's railroads were in financial distress. Many had gone bankrupt or were on the verge of bankruptcy, particularly in the eastern part of the United States. Private railroads had been required to provide passenger services for many years under a regulatory system that encouraged cross-subsidization of rail passenger services by rail freight services. However, competition from trucking, boosted by completion of the interstate highway system and deregulation, greatly reduced the ability of private railroads to charge freight prices high enough to continue cross-subsidies. Privately-owned railroads could not continue to engage in a money-losing passenger rail business.

Amtrak was created to relieve railroads of this burden. Railroads made significant contributions of capital and equipment to start Amtrak in exchange for relief from passenger transport losses. It is through these investments that many private freight railroads continue to be minority shareholders in Amtrak.

Question 2a. Do you know of any specific major U.S. freight railroads that have expressed an interest in operating passenger rail in this country?

Answer. Several U.S. freight railroads currently operate rail passenger trains. These services are almost all commuter or suburban services in major cities and are operated under contract for local transit authorities. In the past, at least one U.S. freight railroad was involved as an operator of commuter services in Buenos Aires, Argentina. Some freight railroads have indicated that they would want to operate passenger trains that travel over their rail lines should Amtrak fail.

Question 3. You specifically mentioned particular private entities that you believe are good examples of rail privatization that has worked, including Connex, National Express, and Arriva. In fact, Connex was the first rail company in the British system to be stripped of its franchise because of long delays, dirty trains, and other operational problems. The British government wound up bailing out the rail operator to the tune of £58 million. Similarly, the British government had to raise £115 million ($165M) to bail out another private rail operator you mentioned, National Express, that was facing crippling losses and projected little chance of ever returning a profit by the end of its franchise. Arriva, which you cite as being staffed with 15,000 employees, was forced to cut 160 trains in Britain because of problems it had with recruiting and retaining train operators. With so many demonstrated failures in other countries, what would make you think that somehow the experience would be different in the United States?

Answer. Franchising has worked very well in many markets; there are more successful train operating companies in the U.K. than failures. Franchise operations in Argentina worked well until the collapse of the economy. Experience with private operation of rail passenger services throughout much of Europe has been positive.

Private operation of passenger and freight services has been expanding successfully throughout the world and there are now a number of large international operators with a great deal of experience.

Under the proposals that have been discussed, a rail operating company arising from within Amtrak would also compete in the market. Further, there are a number of U.S. rail companies with a great deal of experience operating successful train services. With the world's largest market-based economy; experience in contract, franchise, and private operation of train services; a fully developed legal and contract system; and many private railroads, the U.S. has the right environment for any effort to inject private participation into intercity rail passenger services.

When rail markets in the U.K. were restructured, no private rail operating companies existed in that market. Government-owned British Rail had a monopoly on both passenger and freight rail services, so a competitive market had to grow from scratch. Given the much greater experience with privately-operated rail services in the U.S. and the number of different operators already in the U.S. market, contracting for rail operating services and franchising rail operations is more likely to be successful here than in other markets.

Question 4. Japan's privatization of passenger rail service is touted as one of the best-managed railroad transportation systems in the world, but it began with a $300 billion investment by the Japanese government. Although Japan is about the size of California, $300 billion represents well over 11 times the amount spent by the U.S. on supporting Amtrak in the past 30 years. Today, Amtrak is $5 billion in debt and has $6 billion in backlog of state-of-good repair investments. If $300 billion were invested in Amtrak's infrastructure and operations, do you think the railroad could then be profitable?

Answer. The restructuring and eventual privatization of parts of the Japanese National Railway (JNR) was a significant achievement. After World War II, JNR was converted from a government ministry to a state-owned corporation. It was also forced to provide employment to returning servicemen, bloating its workforce and driving up pension and wage costs. Japan also constructed many branches to serve smaller communities. Rail tariffs were controlled and kept quite low, causing JNR to operate at a loss. Pensions, investment and operating loses were financed by debt. As the Japanese economy recovered and personal wealth grew, many interstate-type highways were constructed and rail market shares fell rapidly while JNR debt continued to climb. Even construction of high-speed lines (Shinkansen) and introduction of Bullet-Train services starting in 1964 did not improve JNR's financial position. Restructuring Japan's rail system was complex and took many years. As part of the restructuring, some $200 billion of JNR's $340 billion debt (all guaranteed by the government) was transferred from the government-owned company to a new government-owned Settlements Corporation. The Settlements Corporation also assumed responsibility for excess employees and assets. The remaining portion of JNR debt was transferred to the operating companies that were eventually privatized.

The investment of billions of dollars did not help JNR become profitable. It took a restructuring process that injected private-sector financing and incentives into the operation of the railway. While investing $300 billion into rail passenger infrastructure and rolling stock in the U.S. would certainly provide many high-speed lines and upgrade most rolling stock, it is unlikely that this alone would allow Amtrak to operate profitably. If that investment were not counted as Amtrak debt, and if passenger revenues were not expected to renew or replace those assets as they wore out, then it is possible that some Amtrak routes and services could be operated profitably.

Question 5. The American passenger rail system is partially privatized in that most of the rail infrastructure over which Amtrak operates is privately owned. If we franchise passenger rail operations to private rail operators other than Amtrak, large freight railroads that own thousands of miles of track over vast portions of the United States may have to deal with a number of private operators on their track. How would you suggest we convince the freight railroads to allow these other railroads to operate over their tracks?

Answer. Many private rail lines currently have multiple operators. The map below shows U.S. rail lines with multiple operators, including Amtrak. Amtrak operates few intercity passenger trains on most private rail lines (two trains per day—one in each direction—is typical on many miles of private rail line outside the northeast corridor), so the issue of multiple operators on any one line may not be an important issue for many freight railroads. In any case, access, train priority, required speeds, liability, insurance and many other issues should be settled with private railroads in the process of negotiating access agreements. Private railroads are experienced

in negotiating access agreements, although some arbitration or settlements process may be needed for disputes that cannot be settled through negotiation.

Significant increases in rail passenger services or speeds across private railroad lines are likely to require investments in new capacity. (See previous "U.S. Rail Lines with Multiple Operators" map.)

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO HANK DITTMAR

Question 1. How did Reconnecting America come to the conclusion that passenger rail service should focus on short-distance corridors connecting densely populated urban areas?

Answer. Our conclusion can be more accurately stated in the following way: we believe that intercity passenger rail can serve an important role in an interconnected network with aviation and intercity bus, primarily serving shorter and medium distance markets of up to 400 miles in length. We do not recommend a disconnected corridor based approach, but rather an interconnected national hub and spoke system. We reached this conclusion as a result of evidence that shows that intercity rail can compete effectively with short haul air service in terms of time and cost, and when service is upgraded, can compete effectively with the automobile over the same lengths. One advantage of intercity rail is that it does in fact serve linear corridors, and thus may link multiple city-pair markets of 100–400 miles. A good example is the California Corridor, which links numerous metropolitan markets between San Diego and Sacramento.

Question 2. Your proposal, which focuses each mode of transportation on the markets where each has a natural economic advantage, certainly seems like common sense. But Congress doesn't always seem to use common sense in establishing policy. As a practical matter, how do we transition from the Amtrak of today to the corridor network you recommend?

Answer. First off, we do not solely recommend a corridor network, we recommend an interconnected national network of aviation, intercity rail and intercity bus, with rail routes principally serving short and medium distance markets.

In resolving this issue it is important to balance appropriate government action and public investment with actions to remove barriers that inhibit the market from acting to maximize intermodal services. States, regions and localities need to be given the flexibility to use Federal transportation funds to make intermodal connections, and Federal regulations and agency practices that prevent intermodal operators from emerging need to be eliminated. At the same time, we need to recognize that short and medium distance travel markets are the best growth opportunity for intercity rail service, and that the appropriate way to encourage service improvement in these corridors is to create a Federal grant program for states and regions which incorporates principles of shared investment and benefit with the private sector.

The second major step would be to recognize that the debate about Amtrak service in less populated regions is not principally a debate about market demand, it is a debate about the merits of pursuing a national system that connects the fifty states. As President Eisenhower said when he proposed the Interstate Highway System, "we are a *United* States." We therefore believe that the most appropriate approach to moving forward with a reform vision is to provide for an Essential Transportation Service program, which provides subsidies for less dense areas to be connected into the national system, and which allows for air, intercity rail or intercity bus subsidies and which recognizes that rail provides not just point to point service but a collection and distribution function along a linear corridor. Such an approach would perhaps provide the same level of service to rural areas, but might interconnect with nearby metro areas and major airport hubs rather than providing cross-country service.

The key political problem in envisioning a new role for Amtrak as part of an interconnected national system is that the beneficiaries of the existing long distance routes are unlikely to support changes to their existing service (however marginal that service benefit is) without some guarantee that the replacement system will not result in a loss of access. Perhaps this is why Amtrak President David Gunn calls system changes political in nature.

Mr. Gunn's position would seem to stake out a role for Amtrak as an operating company, with route decisions being left to Congress. This is obviously not a workable situation, nor is the Administration's idea of turning the operating problem entirely over to the fiscally strapped states, One possibility would be to create a separate, small planning and finance authority for intercity passenger services, with the

responsibility of transitioning to an intermodal network over time. It is important to make these changes gradually so that rural communities do not lose transportation access as the Nation moves from the existing structure to a national network of medium distance rail routes interconnected with aviation and bus at key travelports. The Surface Transportation Board or the Air Transportation Stabilization Board might be obvious candidates to be restructured to serve this role, much as public utilities commissions have overseen essential utility services.

Question 3. You mention in your statement that the Downeaster, between Portland, ME and Boston, created a new rail market compensating for the loss of airline seat capacity. But Greyhound argues that the subsidized rail service and Amtrak's low-fare policies are a competitive threat to bus service. Does it make sense for Congress or the states to subsidize Amtrak service to the detriment of bus companies that do not receive Federal operating or capital subsidies?

Answer. The Downeaster is an excellent example of the way that intermodal planning at the state and the metropolitan level can be improved. We believe that markets like the Portland to Boston corridor can be well served by an integrated rail-bus schedule, with both modes operating from the same stations, and with intercity rail serving high demand peak periods with higher capacity trains, and bus service filling out the schedule throughout the rest of the day. In such a scenario, each mode would do what it does best.

As to the questions of subsidy, we think the question of unhealthy competition arises primarily as a result of a failure to network the systems, and that an integrated network would be fiscally more sustainable for all the modes.

Question 4. The States for Passenger Rail Coalition is arguing for a large new high-speed rail program. But, based on your recommendations, is speed the issue or should Congress be looking at the development of conventional or high-speed rail, depending on the distance between major city pairs?

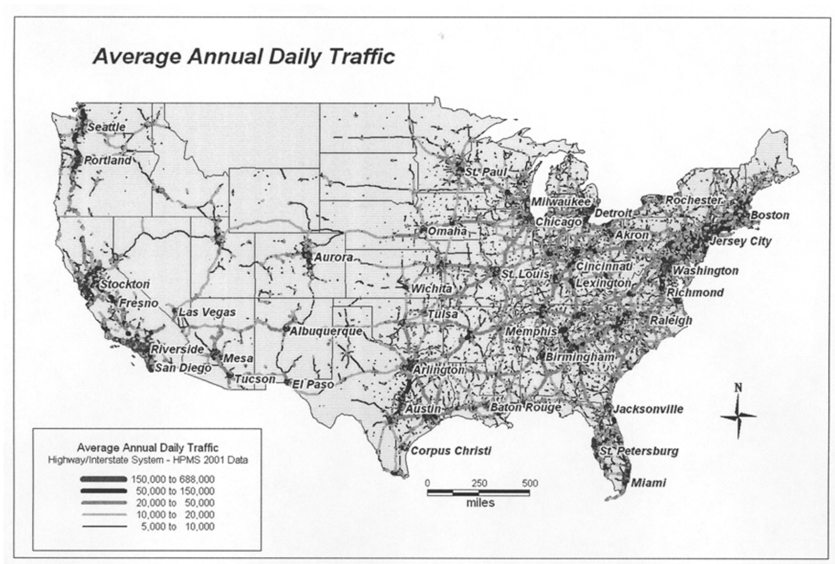
Answer. The States for Passenger Rail Coalition argues for both "investment in new passenger rail systems and incremental improvements in regional passenger rail corridors to expand ridership, with increased speeds, and additional frequencies to expand routes" according to their National Passenger Rail Policy Statement, adopted August 25, 2002. Reconnecting America generally concurs that intercity rail funding programs should support both approaches, with the preponderance of investment probably going to upgrade speeds, safety and comfort on existing rail alignments, most often in a shared investment arrangement with a freight railroad. The rail network does not well serve some key intercity corridors, however, and in those cases new alignments, technologies and services may be the best solution.

Question 5. Would your organization support applying the Federal Transit Administration's process of evaluation and ranking to new intercity rail passenger service?

Answer. Reconnecting America would generally support the adoption of rational processes for evaluation and ranking of proposals for new intercity transportation services, so long as they are applied on an intermodal basis, and take into account the different characteristics of each mode and they are related to a clear statement of goals and objectives at the national level. It is problematic, for example, FTA process has been used to ration limited Federal transit New Starts funding, but that no similar requirement has been imposed for new highway capacity projects in metropolitan areas.

If our Interstate Highway system and our Essential Air Service program had to meet the same standards in terms of demand, density and patronage that intercity passenger rail has to meet, the highway and aviation systems would look a lot different today.

Enclosed for the Committee's review is a map that we produced which shows average daily traffic on the highway network. The map clearly demonstrates that the Interstate and National Highway System designations in many parts of the country are established for reasons of connectivity, rather than reasons of population density or demand. That is why we have argued for clarity in terms of the policy rationale for these services through the creation of an Essential Transportation Service program for small community air service, intercity bus service and intercity rail service for smaller communities. Such a program should have ranking criteria that embrace both point to point services and corridor service to multiple cities and towns, with the ultimate objective being to connect at a hub to longer distance travel by air and rail.



Question 6. I would like to ask you a few questions that bear more on your position with the Great American Station Foundation. Does it make sense, in your opinion, to have Amtrak turn over all stations to the states or municipalities? Are station ownership, maintenance, and commercial development more appropriately a local function than an Amtrak function?

Answer. The most important issue from a national perspective is to move from viewing these facilities as serving single modes, whether they begin as train stations, as airports or as bus depots. Rather they should be seen as "travelports," serving as the nodes which link air, rail and bus service into an interconnected national network. Standards need to be developed specifying appropriate interconnections for differing sizes of communities, so that a downtown station in one medium sized community near a large hub may connect local transit, intercity bus and passenger rail, with a dedicated and integrated rail and bus connection to the large hub airport in the nearby metropolitan area. Incentives need to be developed to promote joint funding and operation of these facilities, no matter who owns them, and the "Last Mile Connections Fund" would provide a vehicle to ensure the final connections get made.

Outside of the Northeast Corridor and Chicago Union Station, Amtrak owns very few of the stations it serves. The primary client of the Great American Station Foundation's efforts to assist with station revitalization as intermodal facilities has been local authorities—either municipalities or local governments. In some cases the private railroads still own stations, and lease them to local authorities. In every case, the problem has been one of providing technical assistance with planning, finding incentives for intermodal coordination, and overcoming barriers to shared use, such as the FTA policy prohibiting their funds from being used in facilities that include private intercity bus carriers. These barriers exist no matter who owns the stations: many municipalities will not welcome private bus operators, for example, and may tend to favor transit use over Amtrak use of the stations they own. Airports tend not to want to threaten parking and rental car operations, and see transit, Amtrak and buses as potential competitors. Seeking solutions that help to remove these ownership biases as well as the policy barriers at both state and Federal levels, such as allowing airports to charge PFCs for arriving bus and rail passengers, will help to solve the situation.

Divesting Amtrak of the ownership of those stations it does own would need to be accompanied with some provision for the new owners to fund the upkeep and operating obligations that would accompany the stations, and perhaps this could be accomplished through some sort of short and medium term funding, declining over time, with the opportunity to make ongoing revenue from the development of air rights, adjacent land, and leasing of space in the stations.

Question 7. Do you recommend, and is it possible, for Amtrak and Greyhound not only to develop shared intermodal stations but also to share station employees?

Answer. We think that shared use and operation of intermodal facilities is critical to a successful intermodal network, and this applies not just to Greyhound and Amtrak but also to local transit and aviation. Particularly in small and medium sized communities, where Amtrak has cut staffing at stations, sharing ticketing and baggage service may be the only way to adequately serve customers. There are numerous ways to accomplish this objective:

- through third party contracting for station operations and maintenance, with each operator maintaining its own ticketing operation;
- through management of the station by one of the operators, with ticketing and baggage handled by each operator; and
- in small stations, with a travel agent or municipality acting to sell tickets on a commission basis, with the station owner handling maintenance.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO HANK DITTMAR

Question 1. You have stated that continued episodic bailouts of Amtrak, the airline industry and the highway industry are not the way the Congress should approach interstate commerce. Instead, you suggest deregulating all transportation industries, including passenger rail, and open them up to intermodal investment groups.

Answer. My testimony called for a sustained increase in public investment in intercity rail, along with the removal of government barriers to intermodal investment in airport-rail-bus connections by airports, transit authorities and states. I contrasted the current set of bailouts with a national intermodal policy that sought to provide a more fiscally stable, environmentally sustainable and consumer friendly intercity travel system through integrated investment in air, rail and bus. Deregulation was not in fact the central recommendation of my testimony. It was instead the following:

> "We believe that passenger rail can play a significant part in our nation's transportation system, if we redefine the role that intercity rail plays in that network, and if we provide stable levels of capital funding, create incentives for connecting our separate air, rail and bus networks together, and remove regulatory barriers that prohibit coordinated planning and integrated approaches to delivering intercity transportation services—both passenger and freight."

Intercity transportation cannot operate without public subsidy, whether it is air transportation, highway transportation or intercity rail. We need to quit kidding ourselves that it can, and recognize that Amtrak has been hamstrung by the lack of a dedicated, stable funding source, especially when compared to aviation and highways, which have their own trust fund and dedicated funding source. Accordingly I called for multiyear capital funding that promotes partnerships between the states and Amtrak, a Last-mile Intermodal Connections program to promote intermodal investment in air-rail-bus connections and in shared benefit passenger-freight rail corridors, an Essential Transportation Services program to subsidize intercity air, rail and bus transportation in rural areas. Amtrak needs to reform and update its route structure, operating philosophy and funding partnerships to reflect the market demands of a 21st Century America, as the route structure of the 19th Century does not serve us well. To suggest such changes does not imply a lack of support for continued investment in Amtrak, merely a desire that increased investment in Amtrak yield maximum benefits.

Question 1a. Are you aware of any investment groups that are willing to invest billions of dollars like the United States Government to operate an efficient and viable passenger rail system?

Answer. No, and Reconnecting America has never suggested that investment groups were willing to take on the task of operating an efficient and viable passenger rail system. There is increasing evidence that private freight railroads are willing to work with the public sector to make shared benefit, shared investment improvements in rail corridors that improve the performance of both passenger rail and freight. This is a welcome development, as it creates a key opportunity for getting past the current concern that the freight railroads have with improved intercity service. Congress should facilitate such investments, as your legislation does. Capital grants to states to improve rail service could promote investment by requiring a state match, either of operating subsidy or capital.

Question 1b. Do you believe that privatizing passenger rail would be a profitable undertaking?

Answer. No, and Reconnecting America has never recommended the privatization of passenger rail. We do support enhanced collaboration, code-sharing and scheduling between Amtrak and private bus operators, as takes place in California. Similarly, if regulatory barriers are removed, I believe that code-sharing, integrated luggage and ticketing and information between Amtrak and air carriers, such as exists in Europe, can help Amtrak capture a new passenger market: that of acting as the medium distance spoke in the hub and spoke network. At the same time, there are many private companies who are willing to take on some aspects of passenger rail services on a contractual basis including food services, equipment maintenance and in some cases operations. While there is a role for greater private contracting in the provision of some aspects of rail service, there needs to be a national operator, with national branding, ticketing, standards, safety and operations oversight and information, and that operator will require public subsidy as do passenger rail operations worldwide. Public private partnerships need to be properly aligned so that the public interest is preserved as the private sector is engaged in spheres where it excels.

Question 2. The events of September 11th showed how vulnerable our transportation system is to terrorist attacks and our need for alternative means to travel across our great Nation in a timely manner. Amtrak provided that service. However, you stated that Amtrak should eliminate long distance service.

Answer. Perhaps I was unclear in my statement, as I do not believe that Amtrak should eliminate all long-distance service. What I said was:

> "Amtrak should cease to be primarily an operator of long distance train routes, and should instead focus on the short and medium haul markets where it can be competitive with both highway and air travel."

It is recognized worldwide that the most effective markets for intercity rail are markets between 150–400 miles, and these are the growth markets for intercity rail passenger services internationally, including in the United States. This does not rule out a role for long-distance trains, particularly those that effectively combine pairs of cities within those distances. At the same time, however, it is clear that air travel provides more speedy service across longer distances, and that the scheduling issues associated with long-distance trains often prevent them from effectively serving shorter distance markets along these routes.

We need to recognize that there are many reasons for Federal investment in transportation, and that connectivity is a key reason. As President Eisenhower said when introducing the Interstate Highway legislation, "We are a United States," and if demand and cost-effectiveness were the only criteria, we would not have built Interstate highways across the Great Plains or the Great Basin. Attached to my answers is a map depicting Average Annual Daily Travel on the Interstate highway system, derived from DOT statistics. It clearly demonstrates that this issue is not unique to Amtrak, but confronts us with respect to highways as well. Yet we have made such investments in both highways and air service, and have done so for good reasons. The answer is to provide subsidies for train service in less populated corridors, in tandem with and coordinated with subsidized air service and intercity bus service. Such subsidies could be offered through a new Essential Transportation Service program rather than the current program dedicated only to aviation. The creation of an ETS program would resolve a policy muddle, because these routes would be provided for national connectivity and rural transportation purposes, and not because they offer competitive service quality in a congested corridor.

Question 2a. How do you believe American citizens would have traveled across the United States in the days after the attacks had Amtrak not been able to provide long distance service?

Answer. Amtrak indeed provided an important service to the Nation in the days after the September 11 attack, and the system redundancy and reliability that is added by a national rail system as part of an interconnected national transportation system is vital. The role of passenger rail could be enhanced if rail, air and bus were interconnected at "travelports", allowing seamless transfer between long-distance flights and rail and bus feeder service. Amtrak should operate a national rail network composed primarily of medium distance routes, interconnected with one another and with intercity bus and air service at major hub locations, including many important travel markets that are not served or are poorly served by the current Amtrak system. In the end, this would provide a better service for the citizens of the country than either the disconnected corridor vision promoted by some or the existing long distance train network Amtrak operates today. While Amtrak might still need to operate some long distance trains, many parts of the country would be better connected by medium distance routes interconnected with other rail service and with bus and airline service at major hub locations. In the coming months, we hope to publish a map depicting such a reorganized structure.

RESPONSE TO WRITTEN QUESTION SUBMITTED BY HON. FRANK R. LAUTENBERG TO HANK DITTMAR

Question. Your "Reconnecting America" initiative proposes essentially that we make better use of our Nation's transportation infrastructure to take advantage of the efficiencies and benefits that suit each particular mode of transportation. For instance, one example of an intermodal connection is in New Jersey, where travelers can take an Amtrak train and connect at Newark Airport to flights leaving to Europe or to the West Coast. But there doesn't appear to be any Federal program designed to provide funding for these types of projects. From a policy standpoint, how can we as a government make it a priority to encourage this type of efficiency among the many modes of transportation?

Answer. The Newark Airport Air-Train project is an excellent example of the kind of intermodal connections we should be pursuing as a matter of government policy. It provides a convenient connection for air passengers arriving at Newark to destinations on Amtrak throughout the Northeast corridor as well as destinations throughout the Tri-State region via New Jersey Transit, and the connection to Penn Station. While the Newark project proves that these kinds of connections can be made, our review of the Newark experience as well as others in San Francisco, Portland, Oregon, and Providence, Rhode Island reveals that each project has had to invent its own funding sources, overcome significant obstacles, and deal with funding barriers in law and regulation that inhibit a systems approach to passenger transportation. In our view, without significant policy changes, it will continue to require persistent genius to succeed at these kinds of "travelport" projects.

For our vision of an interconnected system to become a reality, then, we believe a number of Federal actions are necessary. First, Congress should create a "Last-Mile Intermodal Connections Fund" to finance these kinds of network connections for both passengers and freight. Such an Intermodal Trust Fund could be financed with funding sources that come from each mode, and would be used to provide a Federal share, of up to 50 percent to attract other investment in air-rail-bus terminal projects at airports, rail station intermodal projects in downtowns, and port intermodal center projects for freight.

Second, Congress needs to adopt policy and planning provisions calling for such an interconnected approach in state and metropolitan transportation plans, airport system plans and airport master plans, so that at a minimum these plans recognize the modal investments in each, address potential overlap or impact and consider the efficiencies from potential intermodal investments. These provisions need to be accompanied with enhanced funding flexibility for states and regions, eliminating the legal and regulatory barriers that inhibit Federal modal funds from being used for intermodal projects. Three key examples:

- Expanded eligibility to use Passenger Facility Charges for ground access improvements off airport property, provided it is accompanied with authority to charge PFCs to arriving intercity rail and intercity bus passengers, along with charging a modest surcharge for arriving transit and commuter rail passengers at travelports. The House passed aviation bill makes a modest step in this direction.
- Flexibility to use National Highway System funds to make capital investments in intercity passenger rail and freight rail corridors, provided it is a shared investment scenario and the project relieves a NHS corridor.
- Flexibility to use Federal Transit Administration funding for intermodal facilities for projects that benefit both intercity bus and intercity rail, along with local public transit.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. JOHN MCCAIN TO ALAN LANDES

Question 1. I was surprised that your testimony recommends other train operators negotiate access with the freight railroads, while Amtrak should be permitted to retain its right to access the rights-of-way of the freight railroads at incremental cost. Do you take this position because you believe that even if you have to pay more for access, you will still be more competitive than Amtrak? (In other words, will the benefits of competition offset higher charges to access the rights-of-way of the freight railroads?)

Answer. My testimony related to state-supported services operated under contract to Amtrak [formerly 403(b) services]. This position was taken to allow competition for these services immediately without any changes in Federal law. The position

also recognizes the freight railroads' opposition to other operators having access to their rights of way at the "incremental cost" basis that Amtrak enjoys.

If the other issues raised in my testimony (access to government subsidized *Amtrak* facilities and equipment at a fair price and liability and insurance) are addressed, it may well be that efficiencies introduced by other operators could more than offset the cost differential for track access fees based on fully-allocated costs to the track owner.

Question 1a. How much of a difference do you estimate there is between what Amtrak pays the freight railroad and what you have to pay through negotiation?

Answer. Herzog does not possess documentary evidence of what the incremental cost is that Amtrak is paying the freight railroads. Part of our testimony was the suggestion to require Amtrak to make this available. In the proposal prepared for the State of Missouri, which was not submitted for the reasons stated in our testimony, we assumed that the access charge negotiated by the Altamont Commuter Express Authority with the Union Pacific for the Stockton to San Jose commuter rail service would be a good approximation of the cost for other operators. We understand this to be approximately $6.13 per train mile. The best information we have regarding Amtrak's cost is that the State of Missouri pays Amtrak approximately $2.90 per train mile for access to the UP between Kansas City and St. Louis. The difference, of course, represents a subsidy from the freight railroads to Amtrak.

Question 1b. If we are truly to have fair and open competition, shouldn't the same rules apply to all potential operators, including Amtrak?

Answer. Yes, but the freight railroads are very reluctant to grant other operators access at the rates Amtrak is currently paying. Indeed, Amtrak's performance may cause interference with freight operations at the same time the track owners are under compensated. We would not want passenger to undercut the substantial public benefits of congestion relief, energy savings and safety derived from the rail alternative to truck. While we are not suggesting what Amtrak should or should not pay to the freight railroads, it may be that allowing the freight railroads to recover more than incremental costs would bring about track owner cooperation and result in the improvement of rail passenger service in this country.

Question 2. I have been concerned that freight railroads will prevent an operator other than Amtrak from operating over their rights-of-way even if the operator is willing to negotiate higher access fees. How can Congress protect the interests of the freight railroads while also ensuring that they do not make the price of access so high as to make the service prohibitively expensive?

Answer. As mentioned in my answer to *Question 1,* it may be that Congress could charge the Surface Transportation Board with establishing criteria to serve as the basis for the negotiated access fees. This could serve as a template for negotiation. We believe that the negotiated access rates will generally settle at a number that makes the service affordable. We have been involved in such arms length negotiations many times. Herzog operates affordable and successful commuter rail service at negotiated rates in 3 locations. Connex North America is operating the MBTA commuter rail routes at privately negotiated access fees. The Burlington Northern Santa Fe also has negotiated rates with the Chicago Metra and the Seattle Sounder as does CSX does with MARC in Maryland and CSX and NS do with VRE in Virginia.

Speaking as a potential qualified operator, Herzog is prepared to negotiate directly with the freight railroads for access to track and facilities or this could be done by the states. Whether it is the states or a qualified operator, a specific process needs to be prescribed that allows the negotiations of a reasonable cost to be accomplished within a reasonable timeframe that would allow qualified operators to timely respond to the states. If negotiations fail, the process should spell out a binding arbitration procedure.

In some cases the cost to the infrastructure owner of providing the access will be so high that accurately calculated access fees may be prohibitive. As mentioned previously, freight rail companies depend upon their track to conduct business, increasingly in direct competition with other modes. Congestion of lines is a critical issue and infrastructure capacity is limited in most areas. In such a case, the public parties seeking to maintain the service would need to enter into a dialogue with the track owner to determine what improvements to track, signaling, etc. would be necessary to bring the infrastructure or other operating systems to a level that would permit an acceptable access fee. The parties would then need to agree to a mutually satisfactory mechanism to implement those improvements. This is the kind of "win-win" situation that can lead to expanded passenger rail service. However, it will be important that Congress make the funding available for rail infrastructure expansion as a part of the Transportation Efficiency Act reauthorization.

Question 3. You testified that Amtrak refused to allow Herzog access to its national reservation system? What justification did Amtrak give for taking this action?

Answer. In a letter to Herzog dated March 21, 2003, Amtrak stated that "we do not make this system available to third parties." Our request to Amtrak was to use the reservation system for "through ticketing" for which there appears to be precedent. Amtrak has arrangements with Greyhound to issue "through tickets" for Amtrak passengers who begin or continue their journey on Greyhound buses to or from destinations served by Amtrak to or from destinations not served by Amtrak. We frankly believe that the flat Amtrak rejection was simply an excuse to help assure we could not prepare a bid that was compliant with the Missouri requirement for through ticketing.

Question 4. I understand that Herzog operates a maintenance facility for the state of North Carolina. Did you encounter similar problems in bidding for the maintenance contract or taking over the maintenance operation?

Answer. Yes. Amtrak operates intercity service in the North Carolina supported by the state. Amtrak subcontracted the equipment maintenance for this service to a company called Dymac. At the request of the State Amtrak issued an RFP to possibly replace Dymac. After months of work Herzog submitted a response to Amtrak's RFP. For undisclosed reasons and much to the dismay of Herzog and the State, Amtrak abruptly cancelled the process after reviewing responses. The State then removed the equipment maintenance from Amtrak's scope of work and directly issued a new RFP to which Herzog was the lowest responsible bidder. The State's RFP included insurance requirements identical to those in the original Amtrak RFP, all of which were met by Herzog. After the contract was awarded to Herzog and only two weeks prior to the commencement of the service, Amtrak notified the State that it required a substantial increase in insurance coverage levels and without them Amtrak would discontinue the operation of the service. This action by Amtrak caused a significant increase in cost to the state. In Herzog's view, it was an attempt by Amtrak to scuttle the contract award to Herzog.

Question 5. Mr. Gunn stated in his testimony that it is a myth that the private sector is interested in taking over Amtrak services. Obviously, you would not agree with this statement. Could you please provide the Committee with a list of other companies that have expressed interest in operating trains, managing equipment maintenance, or even taking on responsibility for the Northeast Corridor infrastructure?

Answer. There is a great deal of private sector interest. There is also a great deal of private sector experience as articulated in Mr. Winner's testimony. For months, Mr. Gunn has been asserting that "private sector interest in passenger service is a myth." Mr. Gunn's myth is a myth. He is flat wrong.

Attached is a preliminary list we have compiled. It is an expanded version of a list originally compiled by Mercer Management Consulting, Inc. and made available to us. The National Railroad Contractors and Maintenance Association (NRC) is surveying its membership as well as some additional firms in Europe. We expect to have an expanded list ready for you within a month.

RESPONSE TO WRITTEN QUESTIONS SUBMITTED BY HON. ERNEST F. HOLLINGS TO MICHAEL P. PRACHT

Question 1. Would this plan in effect generate a steady revenue stream available for rail infrastructure?

Answer. Yes, our proposal is to provide $50 billion in revenues for railroad infrastructure over a fixed period of time. This would generate a dependable and reliable source of capital investment funding for both freight and passenger needs.

Question 2. Would it supplant the annual appropriations required of passenger rail now?

Answer. No, this proposal is designed to address capital infrastructure projects for all railroads and would not take the place of annual appropriations for operating needs for intercity passenger rail.

Question 3. What effect would this plan have on transportation congestion, including freight rail, highways and aviation?

Answer. The American economy continues to lose billion of dollars each year as a result of traffic congestion. The most cost effective way to expand capacity and reduce congestion is on the Nation's railroad infrastructure. The American Association of State Highway and Transportation Officials (AASHTO) estimates total freight rail capital investment needs of $175 billion to $195 billion over the next twenty years, but the private rail industry will only be able to provide up to $142

billion. The remainder would require public investment. If railroads were unable to meet the estimated demands for freight movement, billions in additional highway investment would be required. If these capital needs are met and railroads are able to attract a continued share of growing freight traffic the Nation would save the country $17 billion in reduced congestion and highway investment costs from 2000–2020.

Question 4. Would the investment be earmarked only for rail, or could it be used to improve intermodal terminals, as well as improved access to airport terminals and ports?

Answer. Our proposal is designed to provide infrastructure funding for railroads, if intermodal terminals and access to airport terminals and ports include rail connections, then they would qualify.

Question 5. Would the plan support only heavily used transportation corridors in crowded urban areas, or would rural communities benefit from the investment as well?

Answer. We expect that a proposal of this nature should be accompanied by project qualification standards, which should be established by Federal policy makers. There is no reason why rural communities should not benefit from these investments if they meet the standards.

Under the plan you propose, the government investment would not be confined to passenger rail, but freight rail would also be eligible for funding.

Question 1. How do you respond to those who would say that it would be inappropriate for taxpayers to invest in what is really a private asset?

Answer. The type of rail infrastructure investment we are proposing is designed to provide a public good that would reduce congestion, improve air quality, and provide a more efficient and balanced national transportation system. Without such an investment, the government would be limited to investing in transportation infrastructure that would be more costly and less efficient. In addition, unlike other transportation investments, investing in railroad infrastructure places the burden of maintenance on the railroad, not the government.

Question 2. How would you allay fears by freight railroads that huge government investment in their infrastructure could essentially be interpreted as a sale of the infrastructure to the public?

Answer. Under our proposal, the railroads will not benefit from direct grants from the government. This would fall into the category of a government incentive for private investment in transportation infrastructure. There are numerous examples where the government uses the tax code to encourage certain activities that benefit the private sector. This case is no different because the government gets a public benefit in exchange for offering such an incentive. There are also many examples where government already provides direct funding for rail infrastructure improvements that are designed to achieve a public good. All our proposal would do is establish an environment where states and the railroads could join in public/private partnerships to accomplish objectives that are in the interest of the taxpaying public. Railroads will have the option of not participating if they so desire. This concept in no way is designed to replace the significant investment already being made by private railroads. However, it is designed to provide an incentive for private railroads to undertake projects that are in the interest of the public and that otherwise may not get funded.

Question 3. Would the infrastructure currently owned by the freight railroads remain in control of the freight railroads? Who would own and control infrastructure improvements outside of the freight rail system, such as access to airport terminals and equipment for high-speed passenger rail?

Answer. Our proposal does not assume any transfer in ownership of existing railroad property that may be improved and expect that it would remain fully in control of the freight railroads.

With respect to infrastructure outside the existing freight system, we anticipate that any ownership decision would be made by the public/private partnership, which could include ports, states or the freight railroads. With respect to passenger rail access to air terminals and the necessary equipment for providing the service, we believe that those advocating the improvements should make the ownership and maintenance responsibility decision.

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